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Business Organization and Practice

SECOND EDITION

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PREFACE TO THE SECOND EDITION

The widespread cordial reception accorded to the first edition of this book confirms the soundness and attractiveness of the author's approach to the field of business organization. Developments of the last few years demonstrate the fact that, while making business attractive to young people, adequate attention also must be given to the mastery of the fundamental principles underlying all successful business organization and management, regardless of the nature of the business.

Every person engaged in business has three distinct responsibilities: (1) to make a financial success of the business; (2) to conduct the business so that it will be a credit to business management as a whole and to the community in particular; and (3) to practice intelligent and wholehearted co-operation with others, both inside and outside the business, so that the human element—the most difficult factor in business and in life—may be recognized as indispensable to enduring success in the field.

If the beginner in business masters these principles and starts at once to apply them—at whatever level he may be—he will find that their application in all circumstances soon becomes second nature, making it possible for him to handle business problems with a confident sureness that is lacking in those who rely only on bare experience and hunch to get by. No longer can the business executive count on a lucky guess to solve his business problems. Competition is too keen from those who have a surefooted approach to successful business organization and management.

The same features that have made the first edition of this book so attractive to students, teachers, and business executives have been retained in this edition. New material has been added to

include recent developments and to keep the book up to date. The questions at the end of each chapter provide a comprehensive review of the chapter's contents. The problems are about evenly divided as to the sizes of businesses covered; they relate to small businesses, to medium-sized ones, and to large concerns—to retail stores, to manufacturing companies, to service businesses, and to businesses in general. Thus the student gets a well-rounded view of all sizes and kinds of business. The special assignments with instructions for carrying them out cover every kind and size of business, every department, every job, and every management problem, thus giving a comprehensive insight into the organization and management of business concerns as they are actually operated.

The author submits this-revised second edition, confident that it will equal the envious record of the first and further justify the following comment of a board chairman who places this text in the hands of every addition to his junior executive force:

"I believe that any young man entering business, granted that he is good to start with, immeasurably benefits if he can absorb the practical workings of all functions of a business as outlined in your book."

EDWIN M. ROBINSON

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EDITOR'S INTRODUCTION

No longer do most college graduates look forward to careers in the "learned professions" of law, medicine, ministry, and a few others. Graduates of liberal arts colleges seek careers in business; and even a preponderance of engineering school graduates, who succeed in a big way, do so in some area of business management. Admittedly, business has already become a "profession" and may be well on its way to the status of a "learned" profession. Surely learning of many kinds is becoming more and more essential to the achievement of real success in the field of business management. This necessary learning cannot be acquired in the hard way through experience on the job, as it once was when less of it was essential and when the competitive factor was less important. It must be acquired to a considerable extent through systematic study under competent leadership, both before and after initial employment.

Thus it has come about that a sound course in business organization and management is a *must* for all those who aspire to a high-level position in the organizational chart of a big business concern or to the successful management of an individual or partnership business of limited size. Such a course, however, to be of much value, must be not only under the direction of competent leadership, but must also be based on adequate and authoritative instruction material for the student's use. Mere lectures by a professor, however competent in his field, will not suffice. There must be intensive collateral and follow-up study, research, and problem solving to develop clear thinking on the part of the student. If the latter element is to be present, he must have available for his use stimulating, clear, and comprehensive textual

material. Basic principles of sound business organization and practice must be presented at the outset as a guide for the student's independent study. The coverage must be adequate from the standpoint of the many facets of this complex thing called "business." Not only those facts relating to the internal organization and direction of a business enterprise must be dealt with, but also those that concern the service to be rendered society; furthermore, the government controls, sure to be encountered in the management of any business large or small, must be studied. Public relations, industrial relations, and civic responsibilities should be included in such a way as to bring to the surface all factors that must be taken into account by one who would achieve even modest success in the field of business management.

No matter what may be the special interest of the student who expects to enter this field, he will need a clear over-all view of the functional departments of a business organization. Regardless of the *kind* of business in view, or of its *size*, the mastery of the intricacies of the various departmental functions—organization, finance, personnel, procurement, production, sales, collections, industrial relations, and public relations—will need to be achieved in order to assure a headstart towards a successful career in business.

Then, too, there is the guidance function of a course in business organization and practice. Not the least important outcome of such a course of training should be that of at least a tentative decision as to which of the many areas of business organization and management appeals most to the student and matches best his talents. Only after this basic choice has been made can the specialized training, necessary to the achievement of high success in any department of business, be undertaken.

All of the several functions of a basic text in business organization and practice have been given specific and adequate attention in this revised text. This is a dynamic subject. No treatment of it at any time will suffice for all time, or even for a relatively long time. In management, change is constant. No superficial revision of an earlier text in management will suffice. Cognizance must be taken of all that is new in this field. But that is not all; all that has been learned through the use of its forerunner must be given effect in the new book. The author has not overlooked either of

these things in the revision of his eminently successful book. The textual material has been modified and supplemented wherever necessary to keep it in line with progress in the field of management.

Charts and other helpful illustrative and clarification material have been added to and greatly improved. The purpose and use to be made of each such item are made clear, and thus the need for giving it careful attention has been made obvious.

Stimulating questions at the end of each chapter are quite different from the usual catechism sort of review exercises found in many texts.

In the belief that students should pursue their study beyond the textual limits of any topic, additional "research topics" have been included. This is an invaluable feature of any text, but it is of special importance in a course of this kind, where the development of an inquiring mind is essential to continual growth in a field where almost daily changes in practice make constant review of principles necessary. In no other way can any such course be kept fully abreast of progress. In few other fields of activity is it so important to accomplish this result.

The only reliable test of one's clear grasp of the fundamental principles of business organization and practice is that of their effective use in actual practice. That test, in its final and conclusive form, can come only after one has had opportunity to solve problems in a real job; but much can be accomplished through what has come to be called the *case method* of instruction. In this revision, business problem solving has been expanded and greatly improved. In each chapter it is the culmination of a sound treatment of the topic under consideration.

All the proved good features of the outstanding original text have been retained and strengthened. The simple, readable style of English, the helpful use of main-, side-, and sub-headings, the helpful breakdown of textual material into convenient units for intensive study, and the general arrangement of the entire original book are all definitely retained features of the revised edition of this eminently successful text. It is confidently believed that old users of it will be much pleased with changes and additions made and that new users will be added because of them.

FREDERICK G. NICHOLS

An Approach to the Study of Business Organization

1. *Objective:* To have at the finish more liquid financial assets (preferably in cash) than were possessed at the start. This may be called "making a profit."
2. *Method:* To render a service for which others will pay more than it costs the seller to render the service.
3. *Procedure:*
 - a. Finding out what products or services people want or need (market analysis)
 - b. Finding people who want or need it (market analysis)
 - c. Getting these people to order (selling)
 - d. Producing what has been ordered (production)
 - e. Delivering it to the customer (delivery)
 - f. Recording the transaction (accounting)
 - g. Collecting the price (collecting)
4. *Involves:*
 - a. One or more persons do the work (personnel)
 - b. Facilities with which to work (equipment and materials)
 - c. Money to pay for facilities and workers (treasury)
5. *Requires:*
 - a. Planning what is to be done (administration)
 - b. Planning how it is to be done (method)
 - c. Selecting and training personnel (employment)
 - d. Assigning duties to personnel (organization)
 - e. Directing the organization (executive)
 - f. Controlling the organization and the plan (administration)
 - g. Furnishing facilities (supply)
 - h. Getting the money (financing; money to make payments)
6. *Records necessary:*
 - a. Progress of all operations
 - b. Commitments (purchases, payroll, loans)
 - c. Charges against others (accounts and notes receivable)
7. *Facilities:* Services of any nature that supply equipment and proper working conditions to those who are doing the work, at the time and place and in the manner needed. The principle involved is that the less time the worker spends on getting ready and cleaning up, the more time and attention he can give to the accomplishment of his appointed task.
8. *Management:* An organization of some kind is set up, directed, and controlled to determine and carry out a plan that will accomplish the above objectives.

CHAPTER I

Introduction to Business

Few persons have a clear idea of what business is. All they know or believe is that some people are making money in business, and that is what they want to do. Hence they are eager to discover the secret.

THE WAY TO MAKE MONEY

There is only one way to make money in business—by selling goods or services for more than it costs to produce the goods or to render the service. If a person can do that persistently and continuously, he will make money.

There is one drawback here—several million other persons have the same idea and the same objectives. Many of them are trying to improve what they are making or selling and at the same time to reduce the cost of producing it. The normal result of this competition is increasingly better products and services at relatively lower prices. The businessman who cannot get his costs down and keep them down soon finds that he has no business, unless he can produce such a superior product or service that his customers prefer to deal with him rather than with his competitors, regardless of price.

Some businesses are very large, such as General Motors, Metropolitan Life Insurance Company, American Telephone and Telegraph Company, each with assets of more than a billion dollars. Many businesses are quite small: a one-man barbershop, a filling station, a neighborhood grocery store. And, of course, there are all sizes of businesses in between.

Some businesses buy and sell merchandise: retail stores and wholesale houses. Other businesses make things: iron foundries,

shoe factories, clothing manufacturers, creameries. Still others merely render services: hairdressers, telephone and telegraph companies, railroads, air lines, and busses, to name only a few.

OPPORTUNITIES ARE EVERYWHERE

New businesses are constantly being started, some in new fields and some in older fields. And many concerns are constantly going out of business—about three or four hundred thousand every year. Some old fields that have nearly if not quite entirely disappeared are horse-drawn vehicles and women's high shoes. Some new fields are radio, television, plastics, new drugs, and aircraft. Some vigorous businesses that are not new and yet not old are the telephone, the automobile, and the Diesel engine. What the atomic age has in store remains to be seen.

WHO DOES THE WORK?

All these businesses require people to keep them running. Some of these people are managers, many are workers, and others are supervisors. Some people do nothing but sell; others specialize in buying. A multitude of people do nothing but keep records; others interpret those records and adjust their plans accordingly.

Hundreds of thousands of people are running their own businesses; millions of others are working for them on a salary, wage, or commission basis. When a young man or woman graduates from a college course in business, he has a choice of going into business for himself or of working for someone else. If his training has been thorough, he will probably want to test it in someone else's business before establishing a business of his own. The combination of first-class training and good experience, with intelligent and industrious application, is pretty nearly unbeatable.

ADVANTAGE OF WORKING FOR OTHERS

The advantage of working for someone else at first is the chance to observe firsthand how other people do business. With a background such as this book gives, the graduate can compare what he has learned with what actually goes on around him. He can see where mistakes are made in day-to-day practice and where performance might be improved. Indeed, probably his greatest difficulty at first will be to refrain from offering to show the owner

how to run his business. But he had better wait a bit; maybe the owner has good reasons for his methods.

Can You Answer These Questions Now?

Do you know:

1. What a sales order is?
2. What is done to a sales order when it comes in?
3. How field salesmen are kept informed?
4. What steps to take in selling a product by mail?
5. Why records of returns from mailings are kept?
6. How to save postage in mailing circular letters?
7. What questions a credit man asks himself before approving a customer's order?
8. What a credit file is, and how to build one?
9. What steps to take to follow up collections?
10. How to trace a delayed shipment?
11. How to support properly a claim for damage to goods shipped?
12. Why the filing problem in the traffic department is important?
13. Why the purchasing of supplies should be centralized?
14. Why the buying of merchandise for resale should be decentralized?
15. What a purchase order should show?
16. How to follow up a supplier for delivery of goods purchased?
17. How to check an invoice for payment?
18. How to make sure that you will not run out of an item in stock?
19. How to arrange a stock room?
20. The main difference between the duties of a controller and those of a treasurer?
21. What sources of applicants for positions there are?
22. How to prepare a job specification, and where to get the information for it?
23. The purpose of the interview between the applicant and the employer, and how to conduct such an interview?
24. How to break in a new employee?
25. How to set up and operate an interoffice mail service?
26. How to organize your deskwork?
27. How to know when you have control of any routine, department, or organization?
28. The essentials of a good organization?

The beginner will lose nothing by waiting and may learn something worth while. Meanwhile, he can be mastering the details of his own job, which he should do as quickly and as thoroughly

as possible. He should find out all he can about the job, including its past history and its present importance. Not until he feels that he knows more about his job than anyone else should he feel satisfied. Let him remember that technical excellence is one thing; complete mastery involves more. Technical excellence is doing the work skillfully. Complete mastery is knowing all there is about the job, its history and development, its importance and place in the organization, the various ways of doing the work, and why the present way is the best, if it is. With books, magazines, libraries, associations, and day and evening college business courses, there is no excuse for failure to master a job, other than laziness or lack of will, if the worker is in good health.

DISADVANTAGES OF WORKING FOR OTHERS

One disadvantage of working for someone else, after the beginner has mastered the work and through experience has gained confidence in his own ability, is that he may be subject to the whims of his employer and gradually may lose his ambition and sense of independence. It is easy to get into a rut and hard to get out of one. In addition, as a person grows older and takes on family responsibilities, he sometimes hesitates to undertake new ventures, lest he be unsuccessful and affect adversely those dependent on him. In other words, he has less courage and boldness and may actually become afraid to "cut loose" from what he has come to feel is a permanent job, though not wholly a satisfactory one. He settles down into what one businessman has called "middle-aged complacency."

HOW IMPORTANT IS SIZE?

The size of a business does not necessarily signify that it is or will be successful. Many huge businesses have proved unsuccessful. The United States Steel Corporation is one of the few companies that started large and became successful. Many others, organized about the same time, failed to continue. Westinghouse Electric Corporation, General Motors Corporation, and others have had difficulties at one time or another. The large concerns that have forged ahead started for the most part in a small way and expanded gradually by applying sound principles of business organization and management and by furnishing a product or

service that customers wanted. Not one, but all these factors are necessary.

On the other hand, many small businesses are profitable for their owners. Good management is more important than mere size. Furthermore, a small business is more flexible than a large one; a large business may sideslip very fast if it gets out of balance. The secret of the financial success of any business, therefore, is good management. Successful businessmen are better managers; they know how to combine money and opportunity and brains to bring about a successful result. A better manager knows how to use what he has to the best advantage. He utilizes his plant and equipment effectively. He makes his money go far—he is not extravagant. He surrounds himself with capable associates and assistants. He pushes the business consistently, persistently, and aggressively.

WHY BUSINESSES FAIL

A common reason for the failure of most businesses is overextension, where the management has undertaken more than it can

For the most part, business failures are human failures—failures in judgment, personality, decision, ability, and know-how. They just don't happen without a pretty good reason; in 96 per cent of the 9,162 failures occurring in 1950, that reason was the individual who owned the business.

	<i>Per Cent</i>
Incompetence	41.7
* Experience	44.9
Neglect and fraud	9.6
	<u>96.2%</u>

	<i>Per Cent</i>
* Divided as follows:	Lack of experience in the line
	16.0
	Lack of managerial experience
	15.4
	Unbalanced experience
	13.5
	<u>44.9</u>

Courtesy Dun & Bradstreet, Inc.

handle or expanded too rapidly for its financial resources. Sometimes, a concern's market disappears overnight, as illustrated by the real estate mortgage bond houses that failed in the early 1930's. Sometimes, overcapitalization with heavy fixed charges is a cause of failure. Also, where a large concern is the result of a merger, the overhead may be too great for the company to carry, perhaps because of top-heavy high-salaried executive personnel. Sometimes, the death of the "strong man" of a large company precipitates a political pulling and hauling in which the company suffers for lack of consistent direction. Dishonesty at the top of a large concern is an occasional cause of failure. Generally, however, when a large concern fails, it is due to management defects, the correction of which, if done in time, might have saved the business. More than one concern has been carried by its bank longer than was economically justified, in the hope that the business could be saved without the loss of too much money.

HOW DOES NEW MANAGEMENT HELP?

New management may bring to a business new and modern ideas, fresh enthusiasm, and additional financial resources, and is not bound by the traditional practices of the old management. Nor does it always make much difference what the business is. A store that has been limping along may suddenly leap ahead under new management. An airplane manufacturer may struggle for years to get a foothold and then soar with a change in management. Many a bank that has been only just "getting by" has made rapid progress when new management took hold. This phenomenon may be observed in every line of human endeavor, in every city, town, and village in the United States. Fortunately or unfortunately, depending on the point of view, in the conduct of war, the successful generals are invariably those who are the best managers.

On the other hand, before one can undertake intelligently the management or administration of any activity, he must know something about that activity, even though the principles of management are the same everywhere. The difference between knowing something about the activity to be managed and not knowing something about it is the difference between the concrete and the abstract.

THE PRINCIPLES OF MANAGEMENT

Management principles are so sound that it is possible for a competent manager to apply them with a fair degree of success to an activity about which he knows comparatively little, just as an analytical chemist can take any substance and find out what it is by following a step-by-step procedure. At each step, the chemist segregates or eliminates one or more elements. Eventually, he reaches a point where there is nothing left. His analysis is then complete.

But here is a thought: in preparing for his profession, the chemist has spent years in the laboratory, testing countless substances and observing the reactions of different chemicals. He takes a known element, like iron, sodium, lead, or zinc, and observes how it behaves under certain conditions. What happens when iron is placed in nitric acid? What is the color of the sodium flame in a borax bead? How can sulfides be separated from chlorides? And so on.

Eventually, the chemist knows which elements are soluble and in what they are soluble. He knows which reagent chemicals to use to test for each element. Particularly important, he realizes that unless he follows a definite procedure, starting the *same way each time*, he is likely to overlook or miss entirely some element. Only in that way may the chemist *be sure* that his results are correct; only in that way does he *know* what he is doing *all the time*; in other words, he is proceeding *scientifically*.

The essence of science is knowledge (*sci* means to know). Science, however, is more than knowledge; it is *organized* knowledge. The chemist's procedure is organized; he knows what he is doing, and he does it the same way every time.

But it is not enough to do a thing the same way every time; one must know that what he is doing is the right thing. This is the difference between mere system and science. Applied to management, the difference between the manager who does things in a certain way without knowing whether or not it is the correct way and the manager who does things in a certain way because he *knows it is the correct way* is the difference between organized or systematic management and scientific management.

Let us agree that systematic or organized management is better

than unsystematic or unorganized management. Scientific management is still so far ahead of both that there is no comparison.

Not that the systematic manager may not get as good results as the scientific manager. It is conceivable that he might get even better results occasionally, but he would not know why or how he got those results. He knows he did certain things; he does not know why he did them, except that they may have worked before. So he will try them again if he can remember just what he did. If he did several things, producing a successful result, he will not know which of the things was responsible for his success. But the scientific manager will know.

WHAT IS PROFIT?

Profit, generally speaking, is what is left over after all the bills have been paid. To make a profit requires that the concern sell its goods or services for more than it costs to produce and deliver them. In other words, the selling price must be high enough to pay all the costs of purchasing, transportation, manufacturing, selling, delivering, office work, and supervision. If the selling price is not high enough to include all the costs, then the concern suffers a loss; eventually, if the loss continues, the concern must go out of business. This throws out of work all the employees who depend on the concern for their living. The selling price, therefore, must be high enough to cover all costs of doing business. But if the selling price covers only the mere cost of doing business, so that nothing is left over after paying all the bills, then there is no profit.

It is usually the hope of making a good profit that attracts men of ability to business. If a man felt that the best he could expect from hard work and long hours was a bare living, he probably would feel that the effort was not worth while. As the saying goes: "The game is not worth the candle." So it is the hope of an adequate reward that induces men to go into business. If the hope of that reward is taken away, capable men will not be willing to put into business the time and energy needed for success.

HOW CAN PROFITS BE JUSTIFIED?

There are people who believe that no one should make a profit, no matter how capable or industrious or careful a person may be.

Principles of Management

- A. Determine your objective.**
 - 1. Define your purpose.
 - 2. What is it you want to accomplish?
 - 3. What is it you are trying to do?
 - 4. What is it you want done?
 - 5. What is your real aim?
- B. Consider ways of attaining your objective.**
 - 1. Analyze your problem.
 - 2. Seek the facts through research and collection of data.
 - 3. Classify, arrange, and combine facts
 - a. On a basis of common relationships, and
 - b. To show significant points of agreement, difference, variation.
- C. Select the one best way, and adopt it as standard.**
 - 1. Draw conclusions, or formulate a law.
 - 2. Test the law
 - a. For exceptions, and
 - b. Modify it if desirable.
 - 3. Determine what controls are necessary.
- D. Plan arrangement and sequence of work in logical order.**
- E. Organize to carry out the standard method.**
 - 1. Personnel:
 - a. Determine what is needed.
 - b. Select persons best fitted.
 - c. Train them in the standard method.
 - 2. Facilities:
 - a. Determine what is needed.
 - b. Select the best for the purpose.
 - c. Provide it.
- F. Schedule times for performing all operations and activities according to the plan.**
- G. Coordinate, direct, dispatch, and supervise all factors.**
- H. Exercise control over all factors.**
 - 1. Through adequate reports.
 - 2. Through personal observation.

Since much of the misunderstanding about business revolves around the subject of profits, it is worth while to take a moment to examine the situation. Perhaps the biggest obstacle to admitting that profits are justified is the belief of many people that a profit is made always at the expense of someone else—that is, that there can be no gain without a loss.

Let us consider a fairly simple illustration from agriculture, for example, that of growing crops in two fields, side by side, comparable in every way but under different ownership. One owner is industrious, preparing the field carefully, fertilizing it, selecting and testing good seed (using well-known methods), planting it properly, cultivating the earth to keep down weeds and conserve moisture, and finally harvesting his crop without waste. The other farmer is indolent, prefers fishing to working, is neglectful of weeds, and carelessly wasteful in harvesting.

Surely, no one would question the fact that the industrious farmer would have a larger, better, and more marketable crop than his lazy neighbor. Most people would agree that the successful farmer is entitled to his larger returns as a reward for his greater effort. If the lazy farmer gets 60 bushels from his acre, and the industrious farmer gets 300 bushels from his, the difference of 240 bushels represents the margin resulting from the intelligent expenditure of time, money, materials, and energy.

It is obvious that, even after deducting the cost of materials used and the value of the time spent, the margin over the 60 bushels realized from the indolent farmer's acre will be considerable. This margin may be considered profit. The same reasoning may be applied to many activities, where the alertness, industry, and intelligent action of the director results in larger returns. It is the hope of larger returns that spurs individuals to greater effort.

THE RESULT OF ELIMINATING PROFITS

The elimination of profits would result in lessened supplies because fewer suppliers would be willing to produce without profit. The law of supply and demand would soon raise prices above the levels existing at the time that profits were eliminated, and no one would be any better off. Customers are not willing to pay a higher price than they believe to be reasonable or higher than is charged elsewhere for the same article.

The concern whose prices are too high has to reduce them or go out of business for lack of customers. The way to reduce prices is to cut costs. This often is accomplished most effectively by increasing the efficiency of the workers. That is, if a person can be trained to work in such a way that there is no waste time or motion, he can do more and better work in the same or less time without increased fatigue; he is more efficient.

HOW INCREASING EFFICIENCY CUTS COSTS

Why and how the increased efficiency of workers can cut costs is not always clear. Let us examine it for a moment. Roughly speaking, costs include materials, labor, and overhead. Without going into details as to the various ways of figuring and allocating overhead, which is a common term for indirect expense, let us assume that overhead is figured at so much an hour. That is, if an overhead cost of \$8 a day per worker is distributed over eight hours, the hourly cost is \$1; that is obvious. Assume that this hourly overhead is fixed. Assume that the output of a given worker is eight units an hour, that he is paid \$1 an hour, and that the material costs 20 cents a unit. The total cost per unit is:

Material	\$.20
Labor (8 units at \$1)125
Overhead (8 units at \$1)	<u>.125</u>
Cost per unit	\$.450

If the efficiency of the worker is increased 100 per cent, he turns out sixteen units an hour instead of eight. This reduces the labor cost to $6\frac{1}{4}$ cents per unit.

Material	\$.20
Labor (16 units at \$1)0625
Overhead (16 units at \$1)	<u>.0625</u>
Cost per unit	\$.325

If the worker's pay is increased to \$1.60 an hour, the effect on costs is this:

Material	\$.20
Labor (16 units at \$1.60)10
Overhead (16 units at \$1)	<u>.0625</u>
Cost per unit	\$.3625

Although the worker is getting more pay than when the total cost per unit was 45 cents, the total cost per unit is now only $36\frac{1}{4}$ cents, which may make possible a reduction in the selling price and thus attract more customers. This means more business, which may mean more jobs.

At this point, some thoughtful person may raise the question: "If the worker has doubled his output, shouldn't his pay be doubled?" This question is based on the belief that the worker is working twice as fast. That is not true, since increased efficiency means either a greater output for the same energy or the same output for less energy. With this point in mind, a fair question would be: "Who is responsible for the increase in efficiency—the worker or the management?" In other words, would the worker have known how to use more efficient methods if the management had not shown them to him? Shouldn't the management, therefore, share in the benefits resulting from the increased efficiency?

WHAT ABOUT WAGE CUTS?

Before the science of enlightened management was as well developed as it is now, some managers thought that the way to cut costs was to cut wages. It is true that wage cuts will cut costs and make it possible to reduce prices—temporarily at least. To get the same "take-home" pay, the worker must increase his output, usually by working faster, though not necessarily more efficiently. Would a wise employer prefer to cut wages rather than increase efficiency? Here competition enters. Of two employers competing for the same customers, one cuts wages, and the other increases his workers' efficiency, at the same time increasing his workers' take-home pay. Which employer is more likely to have the better workers?

WHAT IS EFFICIENCY?

We have been talking about increasing workers' efficiency. Shouldn't the efficiency of management be increased as well as that of the workers? Certainly.

An efficient worker is one who does not tire himself with unnecessary motions, yet turns out a good day's work. An efficient manager is one who does not permit waste of Space, Time, Energy, Materials (s-t-e-m); he eliminates waste wherever he finds

it, in whatever form. Efficiency eliminates waste, which is the unnecessary expenditure of anything.

We may define efficiency, therefore, as the result obtained in proportion to the space, time, energy, materials, money, and everything else that enters into the result. The greater the output for the expenditure, the greater the resulting efficiency, generally speaking. In management practice, the degree of efficiency attained is determined by setting reasonably attainable standards and then comparing the results obtained with the results obtainable. Efficient work should not result in greater fatigue, since provision is made for adequate rest following physical exertion. Without such rest, fatigue may accumulate to the point of greatly lessened performance—thus demonstrating the point.

KINDS OF BUSINESSES

There are many kinds of businesses. One of the commonest is the trading business, where goods are bought and sold. The object is to sell at a price that covers not only the original purchase cost of the goods, but also the expense of handling them and a fair margin besides.

Retail Trading Businesses. The retail store is a good illustration of the activities of a trading business, whether the store is a neighborhood grocery, a unit in a big chain store system, or a large department store like Marshall Field and Company in Chicago, Bullock's in Los Angeles, Macy's in New York, or Jordan Marsh Company in Boston. All retail stores, whether large or small, perform the same business activities that are concerned with buying and selling. Some retail stores specialize in one type of goods, such as groceries, or drugs, or clothing, or jewelry. Other retail stores carry many lines of merchandise; such are department stores, in which a customer may buy any or all of the above items.

A department store is in effect a number of specialty stores under one roof and usually under one management, although some department stores have "leased departments," which rent space in the store and pay the store management for certain services. The so-called "general store" is neither a specialty store nor a department store, though it carries the same kinds of merchandise as a department store. Most general stores are in communities

with limited trading facilities, but there are some large general stores in different parts of the country that serve wide trading areas. As a rule, a general store is not divided into smaller stores as is a department store, even though similar merchandise may be kept together.

All retail stores of whatever type are trading businesses—all are concerned with buying and selling merchandise.

Wholesale Trading Businesses. The establishments from which the retail stores buy their goods are also business concerns engaged in buying and selling. They may be wholesalers or "distributors," as they are sometimes termed. A *wholesaler*, according to the legal definition, buys and maintains at his place of business a stock of the lines of merchandise that he distributes and sells to retailers or to institutional, commercial, or industrial users, but does not sell in significant amounts to ultimate individual consumers.

Like retailers, a wholesaler may carry full lines of goods or only special lines. He may sell in carlots or in relatively small quantities. Usually, he sells from samples carried by his salesmen or displayed in his store. In a retail store, the customer inspects the individual articles of merchandise, selects and buys those he likes, and usually takes them with him. If the store is well managed, the stock is "turned" fast enough to be always fresh. The wholesaler's stock is kept in a warehouse from which shipments are made to customers, mostly retail merchants, who do not take their purchases with them, but want them delivered to their store or place of business. Orders may be placed with the wholesaler for prompt delivery or for delivery several weeks or months hence.

Wholesalers are sometimes called "jobbers," "commission merchants," or "manufacturers' agents." They may be (1) national, covering the country; (2) sectional, covering a large section of the country; or (3) local, covering only a few counties or part of a large city. But they are all trading businesses, concerned with buying and selling merchandise.

Manufacturing Businesses. The retail merchant also may buy direct from manufacturers. The dress manufacturer, from whom the retail merchant buys his stock, has to buy cloth, thread, trimmings, buttons, and so on. He has sewing machines operated by men and women who make the dresses. He has salesmen who

take samples to the retail stores and bring back orders for dresses to be made up and delivered to the stores.

Thus, we see that manufacturers are also engaged in business activities, even though they do more than merely buy and sell. To the extent that manufacturers sell in wholesale lots, they also may be considered wholesalers, or "manufacturing wholesalers." A manufacturer who sells his product through house-to-house canvassers usually is not considered a retailer, although part of his business seems to be retailing.

Service Businesses. There are companies that do not buy and sell merchandise or manufacture things. Their business is rendering a service; for example, telephone and telegraph companies, railroads and express companies, and taxicab companies. These companies have special facilities for rendering their services, such as wires, poles, conduits, and apparatus; tracks, roadbed, rolling stock, and stations; cabs and garages. They have to buy equipment, materials, and supplies; they have salesmen to sell their services. The object of these companies is to render a good service at a price that will leave them a fair margin after paying expenses.

Other illustrations of service businesses are banks, investment houses, and insurance companies. They have nothing to sell but service. They must have offices and facilities and salesmen for this purpose, even though the salesmen may be termed new business representatives, sales engineers, or even assistants to the president.

It may be seen that business activities concerned with buying include (1) procuring what is to be sold, (2) doing whatever is necessary to put it in shape for sale, and (3) storing it until it is sold. Business activities concerned with selling include (1) finding persons to whom the product or the service can be sold, (2) advertising to them, (3) selling them, and (4) making delivery. Business activities concerned with financing include (1) procurement of money when and as needed, (2) conservation of it until needed, and (3) wise expenditure of money.

ACTIVITIES THAT FACILITATE BUSINESS

All business is facilitated by closely related activities, such as office work, personnel (employees to do the work), the place to

work, and the equipment to work with. These groups of activities are found in every business, and their contribution to the success of the business depends on the effectiveness with which they are organized.

Office Work. Office work comprises (1) bookkeeping, which is recording business transactions and the results of those transactions; (2) correspondence, which is writing and answering letters about business transactions; and (3) clerical work of various types, such as typewriting, telephoning, filing and duplicating papers, computing costs, and messenger service, for carrying out the office system connected with each type of business.

The Personnel Function. The personnel function includes (1) determining what employees are necessary; (2) finding, interviewing, selecting, and hiring applicants with the required ability; (3) training employees and overseeing their progress; and (4) doing everything necessary to make the group of employees an integral, loyal, industrious, and effective productive part of the concern.

Physical Facilities. The provision of working space involves (1) consideration of the most desirable and suitable location for the particular business; (2) its cost and convenience; (3) its upkeep and repair; and (4) selection of suitable and adequate tools, machinery, and other equipment, and their arrangement and their maintenance in good working condition.

BUSINESS POLICIES

In the course of carrying on a business, the manager must make frequent decisions as to what shall be done under circumstances that may arise from time to time. Some of these decisions are about basic matters that affect the business from its start. Others may be temporary, to be effective for short periods or as long as the conditions leading to such decisions exist. Many of the manager's decisions result in business policies; that is, they determine what policy the business shall pursue with respect to certain circumstances and activities. *Business policies* are the result of decisions on such questions as (1) whether to buy and sell for cash or on credit, (2) what lines of merchandise to carry and when to buy, (3) how to price goods, (4) what margin to add, and (5) how to settle daily problems.

ESSENTIALS OF A SUCCESSFUL BUSINESS

To have a fair chance of success, a business must render a worth-while service or make a worth-while product that can be sold at a profit, and it must sell that product or service consistently, persistently, and continuously. Incompetence in business means inability to conduct a business along business lines—that is, inability to buy right, to manufacture correctly, to keep costs down, to sell, to keep records, to conserve resources, and to get along with others.

QUESTIONS FOR REVIEW AND DISCUSSION

1. What is the way to make money in business?
2. Which of the points in your answer to question 1 are the most important? Why?
3. What is the normal result of competition in business?
4. Why are so many new businesses constantly being started?
5. Why are so many concerns constantly going out of business?
6. Which is preferable, to own one's own business or to work for someone else? Why?
7. What are the advantages of working for others?
8. What are the disadvantages of working for others?
9. What is meant by "middle-aged complacency"?
10. What is the difference between technical excellence and complete mastery of a job?
11. What effect has size on the chances for the success of a business?
12. What advantage has a small business over a large one?
13. What advantages do you think a large business may have over a small one?
14. Do you believe that the secret of the financial success of a business is good management? Why or why not?
15. Why do businesses fail?
16. Explain this statement: "For the most part, business failures are human failures."
17. How can new management help a failing business?
18. What are the eight principles of management?
19. Which of the eight principles do you think are the most important? Why?
20. What is systematic management?
21. What is scientific management?

22. What are the advantages of scientific management over systematic management?
23. How would you define a profit?
24. Should anyone be allowed to make a profit? Why or why not?
25. What results could reasonably be expected from eliminating profits?
26. How may a business concern reduce its costs?
27. Compare cutting wages with increasing efficiency as a cost-reducing factor.
28. What is an efficient worker?
29. How does increasing efficiency cut costs and at the same time make it possible to raise wages?
30. What are the business activities of a retail trading business?
31. What are the business activities of a wholesale trading business?
32. What are the business activities of a manufacturer?
33. What distinguishes service businesses from other kinds of business?
34. What is meant by "facilitating activities" of business?
35. What is meant by "business policies"?
36. Why are sound business policies important?
37. What are the basic essentials of a successful business?

TOPICS FOR RESEARCH

1. From the daily newspaper, select five topics relating to business activities. Tell why you think these are concerned with business. With what aspect of business do you think each is concerned?
2. List at least five important public questions of the day. Do any of them involve business? If so, how? If not, why not?
3. The causes of business failures have been divided into two main classes, as follows.
 - a. Due to the fault of the owners:
 - Incompetence
 - Lack of managerial experience
 - Lack of experience in the line
 - Unbalanced experience
 - Neglect (bad habits, poor health, and the like)
 - Fraud
 - b. Not due to the fault of the owners:
 - Disaster (fire, flood, burglary, and the like)
 - Reason unknown

Each year, the *Dun and Bradstreet Monthly Review* publishes the percentage of failures during the preceding year due to each of the above causes. Most banks and many libraries have a file of the review. Look up the figures for last year, and then comment on what they show. If you wish to see how little the various causes of failure change from year to year in relation to each other, look up the figures for three or four years.

PROBLEM

There are two kinds of preparation for business: business training and business experience. Define or explain each, and then state which of the two you believe would be the more desirable for the success in business of a friend of yours who has come to you with the following problem:

His father, a professional man, has told him that he plans to retire within the next four years, that before he retires he would like to see his son started on a business career, and that he is willing to do one of three things:

1. To finance a course of business training in a college of business administration.
2. To place the son as an employee in an established local business, well organized and well managed.
3. To set up his son in business for himself, making available to the young man the same amount of money that the college course would cost.

Analyze this problem from all angles, and then write a letter to your friend, stating your advice, and giving your reasons.

CHAPTER II

How Business Is Owned

Who owns a business? Are all businesses owned by capitalists, whose sole aim is to squeeze the last penny of profit from the business without regard to the welfare of the employees, the customers, or the public? In Soviet Russia, all businesses are owned by the communist state. In the United States of America, there are a number of publicly owned businesses, but the majority are owned by private individuals, either directly or through corporations.

The largest business in the world is privately owned by more than a million persons—the American Telephone and Telegraph Company—and it is not a monopoly. There are some six thousand other telephone companies in the United States. On the other hand, the United States Post Office is owned by the United States Government, and it is a monopoly—no one else may engage in the business of carrying mail. The American Telephone and Telegraph Company makes a respectable profit, but the United States Post Office is run at a heavy loss, even though the Government can and does control every detail of its operation, service, and charges.

PRIVATE OWNERSHIP OR GOVERNMENT OWNERSHIP?

As to whether government should own all public businesses or whether they should be under private ownership and operation, there are differences of opinion. The main advantage of private ownership of public businesses is that the necessity of making the business pay its way induces more efficient and economical operation, since continuance of the business depends on rendering adequate service, and losses cannot be charged to taxes. The main

disadvantage is a possible tendency to eliminate certain features of the services rendered, which, though unprofitable, nevertheless are considered highly desirable and essential. For example, the second-class rates at which the post office carries newspapers and magazines always has resulted in a large deficit on that one operation. But the low rate is justified by the necessity of encouraging widespread dissemination of information all over the country, without restriction except as to common decency.

There are those who maintain that government should own and operate all businesses, whether public or private. The disadvantages of such an arrangement would seem to outweigh the advantages, as shown by the experiences of countries that are promoting that plan. The main advantage of having all businesses publicly owned and operated is that government would control completely all business operations. Jobs would be secure, but competition would disappear, since there would be little incentive to spur people to greater effort. Jobs would be secure, but they would be dependent on political favor.

Such job security and dependency would tend to eliminate private individual incentive, since advancement would depend not on merit, but on favor. Progress would be slowed, lacking incentive. Operating losses would increase and would have to be paid out of taxes. However, there are notable exceptions to such conditions, especially in communities that employ competent city managers and give them absolute freedom from political interference.

NO BUSINESS CAN AFFORD TO LOSE MONEY

Whether a business is owned publicly or privately, its success will depend on the same basic principles of sound organization and management, because only by applying such principles can any business render effective service. Neglect or inability to follow the proved principles results in less efficient service and higher costs. When a privately owned business loses money, its owners suffer the loss. When a publicly owned business loses money, the taxpayers pay for the loss, whether they realize it or not.

Since the owners of a privately owned business expect to enjoy the profits, they expect to stand the losses. That is the risk of

private ownership: the hope of a profit justifies the risk of loss. But note that the loss falls on comparatively few individuals, while the loss in a public business is spread thin over the entire community. The fact that the owners of a private business will have to stand any losses is a powerful incentive to prevent those losses and to insist on better management.

As a fundamental principle, a publicly owned business should not be operated at a profit, since the primary purpose of a public business is to serve the public and profits should be secondary. If the business is so well managed that a profit results, the citizens have the privilege of deciding whether to extend and improve the service, or to use the profits to reduce taxes, or to make up the losses of some other necessary public activity, which by its nature must be conducted at a loss, such as fire and police departments, schools, health and recreation activities, and the like.

THE INDIVIDUAL PROPRIETORSHIP

A privately owned business is owned by one or more individuals under any of several forms of ownership organization. When the business is owned by one person, it is called an *individual proprietorship*. The individual owner may be a man or a woman. He may manage the business himself, or he may hire someone else to manage it for him. Ordinarily, an individual proprietor has almost unlimited freedom of action; he may engage in any business he chooses, or in several businesses if he wishes, subject only to such licensing, regulatory, and prohibitory laws as may be in effect. If a man desires to set up a shoe store, for example, he may do so, provided he can find a suitable location and can furnish the money or credit to procure a supply of merchandise.

Some kinds of businesses require licenses, however. A man who wishes to open a restaurant would have to obtain a victualer's license. This may require merely the payment of a stated fee, or it may involve a thorough investigation of the premises where it is proposed to prepare and serve the food and a physical examination of the fitness and health of the people who are to prepare and serve it. A license to sell milk also may be required. If the restaurant owner desires to sell alcoholic beverages, he must obtain a special license, after a public hearing attended by those in the community who favor or oppose the granting of it.

REASONS FOR LICENSING A BUSINESS

The purpose of licensing may be merely to provide a source of income to local or state government, or it may be to protect the community against the dangers of disease from careless handling of foods as in the case of a restaurant, or uncleanliness in the case of a barbershop, and so on. In many states, any garage intended for more than two motor vehicles requires a license or permit, lest the neighbors be annoyed by the noise, fumes, and dirt. The zoning of residential, commercial, and manufacturing areas is intended to protect established residents in their rights to peace and quiet.

Aside from those regulations that are obviously for the benefit of the community or its government, the individual proprietor finds little restriction on his right to enter any business he chooses. In 1929, the Supreme Judicial Court of Massachusetts declared: "Everybody has a right to be free in the enjoyment and use of his faculties in all ways, to live and work where he chooses, to contract to earn his living in any lawful pursuit, and to that end to enter into all lawful contracts." This is called *freedom of contract* and means that any lawful contract made between sane, sober adults is enforceable in the absence of fraud or duress.

INTERNAL AND EXTERNAL OPERATION

Internal operation refers to the ordinary operation of a business, including the assigning of duties to employees, the direction and control of their work, the establishing and operation of routines and procedures for getting work done, the buying, selling, and manufacturing of the company's product, and so on.

External operation refers to those features in which the public and governmental agencies may be interested. Laws must be complied with; required reports must be filed on time; taxes must be paid; and correct relations with competitors must be considered to avoid charges of conspiracy, unfair competition, restraint of trade, and so on.

Also, care must be taken to see that social legislation is complied with. This includes laws and regulations designed to protect people (1) from the consequences of their own acts or neglect to

act, and (2) from the uncurbed selfish acts of others. Illustrations of the first kind are health regulations, narcotic laws, old-age insurance, and the like. Illustrations of the second kind are wage and hour laws, blue-sky laws affecting the issuance of securities, antitrust laws, labor relations laws, and employers' liability and workmen's compensation acts. The Food, Drug, and Cosmetic Act comes under both categories: it requires plain, legible labeling of all products so that the consumer can know what he is buying, and restrains, to some extent at least, the selling of dangerous drugs.

ADVANTAGES OF OWNING YOUR OWN BUSINESS

As far as the internal operation of business is concerned, the individual proprietor meets virtually no governmental control, so long as he complies with the social legislation concerned with hiring, paying, and discharging employees, and with the minimum and maximum prices that may be charged. He can buy from anyone who will sell to him and on any agreed terms. He can sell to anyone he chooses. If he does not wish to sell to certain persons, he need not do so unless his business is one that is "affected by a public interest," as when the business enjoys some peculiar privilege granted by the public authority, without which it would not be able to exist, or when the business supplies some commodity or service so essential to economic life that it may be regarded as a public necessity. Although a grocer may refuse to sell to a customer, a gas company could not refuse to supply gas, provided the gas mains and connections were in, the gas-burning equipment in proper condition, and the customer ready, willing, and able to pay for it. Of course, if the customer already owes the gas company for gas previously furnished, the company may decline to supply more gas until the debt has been paid.

The greatest advantage of an individual proprietorship is in the freedom of action. The proprietor does not have to consult someone else if he wishes to take a certain action. He is his own boss. He is responsible only to himself. If the business makes money, it is his money; if the business loses money, the loss falls on him. If he decides to expand or contract his business, his own decision is the determining factor.

Yet there are definite disadvantages in the individual proprietorship form of business ownership.

DISADVANTAGES OF THE ONE-MAN BUSINESS

Probably the most important is its impermanence, especially if the owner is the active manager of a small business. If the owner becomes sick or incapacitated, there is no one to carry on. The business virtually stops or falters. If it is a service business, the hardship is immediate; the owner cannot give service to his customers, who at once turn to his competitors. Business thus lost is not easily regained. Of course, if the proprietor has some faithful, competent, and well-trained employees who can carry on during his disability, he is fortunate. Even then, if he died, complications would arise. The employees might be faithful to the owner, but not to the owner's heirs. Ordinarily, at least a year is required to settle a decedent's estate, and some estates drag on interminably. According to the Travelers Insurance Company, statistics show that four out of five individual proprietorships never survive the critical period following the owner's death.

Another serious disadvantage of the individual proprietorship is the difficulty of personally supervising all parts of a large business. As long as the business is small, the owner can keep in touch with and actively direct all parts of it. But a large business may be beyond the capacity of a single individual to direct effectively. He may not be able to command the loyalty of a large staff of competent managers, each of whom is naturally interested in his own welfare and progress first of all.

One last disadvantage of the individual proprietorship may be mentioned: a limit to the command of new capital. The sources of new money in such a business are limited to the owner's money or savings, to the money of the family or of friends or relatives, and to lenders who are willing to lend money to him. Money advanced to an individual proprietor must be in the form of loans, for the repayment of which he is personally responsible to the limit of his resources.

In view of the hazards just described, why should others take undue risks by lending large amounts of money to an individual who may die or become incapacitated without warning? Of course, the hazard of death may be mitigated by taking out life insurance in favor of the lender, and this is frequently done. The borrower pays the premiums, because he is getting the most benefit.

Suppose that an individual proprietor is fortunate enough to hire a man who has managerial ability. How long will the second man be willing to work for a salary, or even for a salary and bonus, when he realizes the risks described above? The hired manager is likely to do one of two things: he will demand a share in the business, or he will start a competing business of his own. This is not unreasonable, since every individual is responsible for his own success and advancement. If a man has enough ability to conduct a business successfully, why should he work for others for less than he might make in his own business? Thus, the two alternatives work to the disadvantage of the individual proprietor.

THE PARTNERSHIP FORM OF BUSINESS OWNERSHIP

The logical step for an individual proprietor thus confronted would be to take his manager into partnership with him. By doing this, he assures himself of the continuing ability of the manager and also of the sharing of the financial responsibility for the business. Now each man can bend his whole energy toward building up the business, confident that his efforts will be well rewarded. Creditors, also, are likely to favor a partnership over an individual proprietorship, since they can hold each partner absolutely and unconditionally liable to the full extent of his personal fortune for all the debts of the partnership. This attitude is reasonable, because there is greater security for the debt.

The legal effects of the partnership relation must not be ignored, however. They should be considered long and earnestly before a partnership is formed, lest the resulting situation be worse than the one it was intended to cure.

The two most significant legal features of a partnership are: first, that each partner is a general agent for the firm, and thus has full power to act for the firm and bind it in matters relating to the firm's business; and second, that each partner is absolutely liable to the full extent of his personal fortune for *all* the debts of the partnership. These two features of partnership law explain why one should be very careful about entering into a partnership without knowing a great deal about the character of the proposed partner. Partners should have implicit confidence in each other.

The partnership relation is governed by the Uniform Partner-

ship Act in those states that have adopted this act and by the common law or statutes in other states.

Articles of Copartnership. Since partnership is based on contract, either expressed or implied, it is important to all partners that the agreement between them be in writing and be carefully drawn up. The best legal talent available is none too good when drawing up the articles of copartnership, as the written agreement is called. Any point that is not covered by the agreement will be interpreted according to the Uniform Partnership Act or by the common law, whichever is in effect in the state concerned. Even in states where the act has been adopted, points not covered in it will be interpreted according to the common law.

The sharing of profits and losses is an example of some of the points that should be considered. Under the law of contracts, parties may agree to do anything that is legal. If, therefore, two partners agree to share profits and losses in the proportion of 2 to 1—that is, one partner will receive two-thirds of the profits and will pay two-thirds of the losses—that agreement should be in writing, since the law says that all profits and losses of the business shall be shared equally by the partners unless they have agreed otherwise. The easiest way to prove an agreement is to put it in writing.

Suppose the partners decide to share profits 2 to 1 and losses 3 to 2. That is all right if it is in the partnership agreement; otherwise the sharing is equal. If the agreement is to share profits 3 to 2, and nothing is said about losses, then losses would be shared in the same proportion as profits. This is fair, since the partners have the right to agree on any division they wish. If they do not make any agreement as to how profits and losses are to be shared, then they must abide by the law.

However, any agreement between the partners as to the sharing or limitation of losses does not affect the creditors, who may enforce the individual liability of any partner for *all* the debts of the partnership. That is the law, and it is fair, since no one is forced to become a partner. If a person becomes a partner, he should be aware of partnership liability and blame no one but himself for consequences. If one partner has to pay more than his share, he may try to recover from his partners under the agreement; but his success will depend on how much property the

Facts about Partnerships

1. A partnership is an agreement between two or more persons to conduct a business as co-owners for profit.
2. All partnerships should be based on a written agreement between the partners, stating exactly what each agrees to do and what he expects the other partners to do.
3. The partnership agreement should be carefully drawn, preferably by an attorney.
4. The partnership agreement usually states who the partners are, the nature of the business, each partner's duties in that business, what each partner agrees to put in and take out of the business, and how the partnership shall be terminated.
5. Regardless of the agreement, there are certain laws affecting partnerships that must be considered.
6. The outstanding feature of a partnership is the unlimited personal liability of each partner for the debts of the firm and responsibility for the acts of all the other partners.
7. If the firm fails, each member is individually liable for the entire debts of the firm.
8. Each partner ordinarily may make contracts binding all the other partners, even though he acts against their wishes.
9. It is wise to be extremely careful in choosing partners, to know that they are trustworthy in every way.
10. A partner may withdraw from a firm at any time, but his withdrawal does not release him from his liability for the debts of the partnership up to the time of his withdrawal.
11. A partnership is dissolved by the death, insanity, insolvency, or withdrawal of a member, by the mutual agreement of the partners, or as provided in the partnership agreement.
12. Usually, when a partner withdraws from a firm of three or more members, the remaining members form a new partnership.
13. If a partner withdraws, the fact should be published, and notice sent to all interested persons, in order to relieve him of liability for subsequent acts of the firm; otherwise, he may find himself some day in an embarrassing situation.
14. In fact, any change in a partnership should at once be published and notice sent to all interested persons.
15. On the death of a partner, the other members of the firm have the sole right, in the absence of agreement to the contrary or otherwise, to wind up the business.
16. In the absence of any prior agreement to the contrary, the heirs of a deceased partner cannot enter the firm and manage his interest without the consent of the surviving partners.
17. A partner cannot dispose of his interest in the partnership by making a will. In his will, however, he can dispose of the proceeds of his interest after the affairs of the partnership have been settled.

other partners have. Therefore, he must be careful in his choice of partners. In any case, creditors of the firm are not affected.

Authority of Each Partner. Each partner has the power to act for the firm and bind it in matters relating to the firm's business. The articles of copartnership should cover this point explicitly; oral agreement is not sufficient. In fact, any agreement between the partners themselves as to authority to act for the firm is not binding on third parties who have no knowledge of the limitations.

Suppose two partners agree that one shall do all the buying, that the other shall do all the selling, and that neither shall have authority to do otherwise. Can a creditor hold the firm for a purchase made by the partner with only sales authority? Yes, if he didn't know of the limitation.

Suppose a dispute arises among the partners. Who shall settle it? The individual proprietor can settle his own disputes, but with partners, each has an equal say, unless the copartnership agreement states otherwise.

Suppose one partner becomes incapacitated, and the other carries on. Can he claim additional compensation? Not unless the partnership agreement so states, or unless the disabled partner agrees to it *in advance*. And there is a question whether a disabled partner, who, *after* recovery, agrees to additional compensation for the partner who carried on during the disability, can be held to his promise, since there is no valid consideration for it. That is the law, and each partner is presumed to be familiar with it. He cannot plead ignorance of the law. There may be, of course, a moral obligation, and a man of high moral character would carry out a promise regardless of his legal liability.

On the other hand, there may be some question as to the existence even of a moral obligation, since each partner is expected to give his entire time and attention to the partnership business in the absence of agreement to the contrary. Any lessening of endeavor would affect directly the income of both partners. The healthy partner is merely protecting his own interests when he carries on alone. He can quit any time he wishes and take the consequences, or he can ask his incapacitated partner to agree to additional compensation starting at the time of the agreement as to such allowance. It is conceivable however, that a question of

undue influence might arise to nullify an agreement for additional compensation.

Effect of a Partner's Death. Under the law, the partnership is the partners and cannot exist separately from the partners themselves. The death of a partner immediately dissolves the partnership, which then no longer exists as a partnership and cannot carry on as such, except as to business already begun; no new business can be undertaken. But an agreement in the articles of copartnership would alleviate this burden by providing that surviving partners may continue the business, or by providing life insurance for each partner or for certain ones, the proceeds to be used to pay the heirs of the deceased partner for his interest. It is obvious that the clauses for these provisions should be worded with extreme care by a competent attorney.

Even the death of a partner does not cancel his liability for the debts of the partnership, since firm creditors may hold his estate liable for them, subject only to the prior claims of individual creditors. When anyone dies, his estate is liable for any and all of his unpaid debts. The same is true of the individual members of a partnership. But a partner's individual debts must be paid before his estate can be held for the partnership debts.

We have considered only the legal effects of the partnership method of owning a business. Little has been said about the effect on the operation of a business so owned. Generally speaking, whatever an individual proprietor may do, a partnership may do. Complications may arise because, while in an individual proprietorship only one person has to make a decision, in a partnership two or more individuals have to agree on the decision. Since there is no limit to the number of partners that a firm may have, the possible complications are obvious and sometimes result in embarrassing situations. For example, one partner may issue certain orders to an employee; another partner may issue conflicting orders. Which order shall the puzzled employee follow? Such a situation might arise under any form of business ownership where lines of authority have not been clearly defined and made known to the employees. Nobody, however, can cancel or change the orders of the individual proprietor, since he is supreme in authority.

THE CORPORATE FORM OF BUSINESS OWNERSHIP

A third form of business ownership is the corporation. This form is common, although it has certain disadvantages, such as complicated and expensive reports that have to be made to both Federal and state governments. Corporations also are subject to heavy taxes by these governments. A small corporation might find its taxes and reports a heavy burden.

The corporation has two special advantages: one is the limited liability of the owners, and the other is the perpetual existence of the corporation itself. Generally, the only loss an owner of stock in a corporation may sustain is the loss of his original investment in the corporation. As a stockholder, he cannot involuntarily be held for the debts of the corporation, no matter how large. If a corporation fails without leaving any assets, the creditors lose, and the stockholders escape with the loss of their investment only. That is what limited liability means. Limited liability makes it possible to procure capital from a large number of people who could not afford to take the chance of losing their personal property and savings, as in a partnership.

Unless the existence of a corporation is limited by statute or by its charter, a corporation may go on forever, regardless of changes in ownership or management. The life of a corporation as a corporation is not affected by anything that happens to its stockholders as stockholders. That is what perpetual existence means. Of course, if a corporation does not make the reports required by government or pay its taxes, the government under which it was incorporated may dissolve the corporation, which is then terminated so far as doing business is concerned. Also, the stockholders themselves usually can dissolve the corporation by voting according to its bylaws or the statutes of the state under whose laws the corporation was created.

How a Corporation Is Formed. Corporations may be formed by Congress, by a state legislature, or under state corporation laws. Federal corporation laws have been proposed, but not enacted. All the states have corporation laws under which corporations may be formed, and to which such corporations are amenable. The corporation laws of some states are more liberal than those of

others. That is, a corporation organized under the laws of Delaware, for instance, may do many things that a corporation organized under the laws of Vermont may not do. Consequently, many large corporations are organized under Delaware laws.

It is easy to form a corporation. All that is necessary under the Massachusetts Corporation Law, for instance, is for three or more persons to fill out, sign, and swear to the statements contained in five legal-sized sheets, called the Articles of Association, and take or send them with a copy of the bylaws to the office of the Commissioner of Corporations and Taxation, with a check for the organization and filing fee, amounting to one-twentieth of 1 per cent of the authorized capital with par value, and 5 cents a share for all authorized shares without par value; the minimum filing fee is \$50. After examination and approval, the commissioner files the papers in the office of the Secretary of the Commonwealth, who issues a certificate of incorporation to the corporation, which has the force and effect of a special charter. The existence of the corporation begins with the filing of the articles of association in the office of the Secretary of the Commonwealth, and the corporation may thereupon begin to do business as a corporation.

A Corporation Is a Legal Person. The first point to bear in mind about a corporation is that it is an artificial person, created by the state under whose laws it was organized and endowed with certain definite powers. Even though it is an artificial person, without flesh and blood, it has an actual legal existence entirely separate from its owners or managers. Owners or managers may die or change, but the corporation continues its separate existence. The corporation is not the stockholders, nor the managers, nor the employees, nor the creditors. It may sue and be sued in its own name, may act in its own name, may buy, hold, and sell property in its own name.

A Corporation Acts Through Agents. With the fact of separate corporate existence recognized, the second point to remember is that since a corporation is an artificial person and cannot act for itself, it can act only through its agents. The board of directors, elected by the stockholders, has the right and power to manage the business of the corporation in the absence of fraud. Where the board of directors is large, certain of the directors may be desig-

Facts about Corporations

1. A corporation is an artificial person created by law, through which three or more persons may carry on a business.
2. A corporation receives a charter from the state, granting certain powers to the corporation.
3. No corporation can exceed the powers granted in its charter.
4. The bylaws of a corporation are the rules and regulations by which its internal affairs are governed.
5. The important feature of a corporation is the fact that, except under special circumstances, the stockholders are not liable for the debts of the corporation.
6. A stockholder who owns stock that is not "full paid" is liable only for the par value of his stock less the amount "paid in."
7. "Full-paid" stock is stock that has been issued and paid for at its full par value.
8. The par value of a stock is its face value—the amount printed on the face of the stock certificate. The par value of a stock is not its actual value. A stock may have a par value of \$100 and be worth only \$23.
9. The capital stock of a corporation is divided into shares.
10. A stockholder of a corporation has one vote for each share of stock he owns, unless he owns nonvoting stock.
11. Certificates of stock are negotiable, and a stockholder may sell any or all of his stock to anyone who is willing to buy it.
12. A corporation is managed through a board of directors, who may be elected by the stockholders at the annual meeting.
13. The directors may authorize one of their number, usually the president, to act for them, and to manage the business of the corporation subject to their approval.
14. A stockholder, therefore, has nothing to do with the business of a corporation unless he is an officer or a member of the board of directors, or owns the controlling vote, or is employed by the corporation. He has no power or authority except a vote at the annual meeting.
15. A corporation can continue its existence and business, regardless of the death of any stockholder.
16. In addition to the capital stock, some corporations issue bonds, which are notes under seal and are usually secured by mortgages.
17. A mortgage transfers title to property, with the provision that, if the conditions named in the mortgage are met on or before a stated time, the transfer will be void.
18. A bondholder is therefore a creditor of the corporation, since the corporation owes him money.
19. A bondholder does not have a vote.
20. Bonds are an obligation of the corporation and must be paid at maturity, while shares of stock are simply evidences of ownership.

21. When bonds mature, if they are not paid, the bondholders can foreclose on the security, just as the holder of a mortgage can foreclose if the interest is not paid. The only way that a stockholder can get his money back is by selling his stock.

22. Interest on bonds must be paid, while dividends on stock are not paid unless they are earned, and not then unless the directors declare a dividend. The interest on bonds must be paid before the dividends on stock are declared. If the interest is not paid, the bondholders can foreclose.

23. Bonds, to be worth anything, must have some security back of them. The security may be the property of the company, or the income of the company, or simply the promise of the company.

24. Bonds secured by property are called "mortgage bonds"; those secured by income are called "income bonds"; those secured by promises are called "debenture bonds" or sometimes simply "notes."

25. Sometimes a corporation issues two or more kinds of stock. One kind is called "preferred stock"; the other, "common stock."

26. Preferred stock is usually preferred both as to assets and dividends; that is, dividends must be paid on the preferred stock before anything is paid on the common stock.

27. If a corporation winds up its business and dissolves, the bondholders are paid first, then the general creditors, then the preferred stockholders, and the common stockholders receive what is left.

28. Common stock often carries voting power, and preferred stock does not.

29. If a stockholder loses his certificate, he can get a duplicate by promising to make good any loss caused if the lost stock turns up. If the stock turns up in the hands of an innocent holder, the corporation probably would be compelled to recognize it.

30. In some states, the corporation laws are not so rigid as in others. They allow corporations greater powers at less cost and with less supervision. Although it is easier to incorporate in these states, there is greater opportunity for fraud.

31. A corporation can do business in any state, regardless of the state in which it is incorporated. It is, of course, subject to the laws of every state in which it does business and must comply with the laws of the state in which it is incorporated.

nated as an executive committee, with power and authority to carry on between meetings of the board and subject to the board's approval.

The directors appoint officers, through whom employees are hired to perform duties. The stockholders, as such, have no authority in the management of the corporation; legally, they can

only elect the directors. Hence comes the sinister meaning attached to the term "minority stockholder," designating one whose stockholdings, with those of others who think and vote as he does, constitute less than 50 per cent of the corporation's voting stock. The holders of more than 50 per cent of the stock of a corporation control the corporation, unless provision is made for preferential voting, which relatively few corporations have.

What May a Corporation Do? The third point to remember is that, except for certain general powers possessed by all corporations organized in the same state, no corporation has power to do anything not granted in its charter. For this reason, the drawing up of corporate purposes in the articles of organization is important and requires considerable care and thought. It is desirable to have this done by an experienced corporation lawyer, if the corporation is important enough. The purposes of some charters are so drawn as to give the corporation permission to do practically anything and to enter into or conduct any business except public utilities, banking, and insurance, and to buy, sell, or hold an unlimited amount of property.

Acts exercised by a corporation beyond those granted in its charter are called *ultra vires*, that is, beyond the powers of the corporation. When dealing with a corporation, therefore, one should know what it is chartered to do. Since the articles of organization are a public record and on file in a state office, they may be consulted by anyone.

Where May a Corporation Do Business? The fourth point about a corporation is that it has no rights outside the state that created it, except by permission of other states in which it may wish to do business. This permission usually is granted after filing certain papers and making certain reports, accompanied by stated fees. These requirements, however, are not uniform in all the states.

A corporation is a domestic corporation in the state that created it. In all other states it is a "foreign" corporation. The penalties imposed on a foreign corporation for doing business without permission are sometimes severe. Although what constitutes "doing business" is not entirely clear, generally maintaining a place of business and carrying on business operations have been held to

be doing business. But expert legal counsel is desirable if trouble and unnecessary expense are to be avoided.

Compensating Advantages. Corporate ownership of a business has compensating advantages. Frequently, the handling of *corporate* matters¹ is assigned to an officer who attends to nothing else, leaving the other officers free to conduct actual business affairs. Also, the freedom from personal liability, in the absence of fraud, gives the officers and directors the courage to make some decisions that might not be made if they were to be held personally liable for resulting debts. Many persons hesitate to act, fearing the results; they may be too timid. When an opportunity presents itself, it should be boldly grasped. Courage is that quality of mind which enables one to meet danger and difficulties with firmness. As Shakespeare said: "Our doubts are traitors, and make us lose the good we oft might win by fearing to attempt." Boldness in business is always a factor in success, provided it is tempered with discretion at appropriate times.

STOCKS AND BONDS

Although the corporate features of stocks and bonds have no relation to the business of the corporation, except to furnish needed funds, a brief description of them here may not be out of place.

Ordinarily, a corporation is organized with capital stock totaling some stated sum in dollars, such as \$100,000, or \$1,000,000, or \$50,000,000. This capital stock is divided into shares, which may be equal or unequal, as determined by the organizers of the corporation. Let us assume that a corporation has a capital stock of \$1,000,000, divided into 10,000 shares of \$100 par value each. (Par value means face value and has no relation to the actual value of the stock, which may be nearer the book value—that is, net worth—than the market value, or vice versa.) These shares are sold to investors, who thereby become stockholders in the corporation. Ordinarily, a stockholder has one vote for each share of stock he owns, but his voting powers and other rights depend en-

¹ Corporate matters are those concerned with the corporation *as a corporation* and include the issuance and transfer of stock certificates, sending out notices of stockholders' and directors' meetings, keeping the minutes of such meetings, making corporate reports to governmental authorities, and so on.

tirely on the charter provisions. Investors have been known to buy nonvoting stock.

Common and Preferred Stock. There are usually two classes of stock—common and preferred—although one large corporation has only preferred stock outstanding, the directors having retired its common stock many years ago to prevent losing control of the corporation.

The original differences between the two kinds were that preferred stock had a claim on both dividends and assets before the



Every stockholder in a corporation is entitled to a stock certificate showing how many shares he owns.

common stock, and that the common stock could receive unlimited dividends after the preferred stock was taken care of. In addition, the common stock had voting power, while the preferred did not. There have been so many variations and combinations of these privileges in recent years that the terms "common" and "preferred" have lost some of their original meanings. Only by examining the charter provisions, which usually are printed or referred to on the stock certificate, can a stockholder know what he owns and what his rights as a stockholder are.

Bondholders Are Creditors. The owners of a corporation are called *stockholders*; their rights are limited. If a corporation issues bonds, the owners of them are called *bondholders*. A bond

represents a loan to the corporation. The bondholders are therefore creditors of the corporation and have all the usual rights of a creditor, subject to any restrictions or provisions under which the loan was made. These provisions usually appear or are referred to on the bond certificate.

Most bonds do not have to be repaid for a number of years. In this way, they differ from bank loans, which ordinarily must be repaid within ninety days. Actually, a bond is simply a promise to pay that is in writing and under seal. Sometimes, property is put

COMMON STOCK DIVIDEND		MC GRAW-HILL PUBLISHING COMPANY, INC. H 69 <u>1-103</u> <u>210</u>	
No. 985	New York, September 12, 1952		
TO THE ORDER OF			
John Doe 4567 Blank Street Chicago 14, Illinois			
PAY \$		DOLLARS	CENTS
		6	* 50
Dividend of 65 cents per share on the Common Stock of record September 3 1952			
SPECIMEN			
PAYABLE AT BANKERS TRUST COMPANY, NEW YORK		VICE PRESIDENT BANKERS TRUST COMPANY DIVIDEND DISBURSING AGENT	

If the directors declare a dividend, each stockholder receives a dividend check based on the number of shares that he owns.

up as security for the payment of the bond; if the property is real estate, the bond is called a *mortgage bond*; if other stocks or bonds are put up as security, the bond is called a *collateral bond*. In case of failure to pay principal and interest when due, the bondholder may foreclose the mortgage and take the property.

Loans usually carry interest. The only reason for buying bonds is to get the interest, unless an investor expects an appreciation in the market value. The interest on a bond may vary from a fraction of 1 per cent to 6, 7, or 8 per cent, depending on the money market and on the credit of the borrowing corporation. Interest is usually payable semiannually, either by check or by coupons attached to the bond.

A *coupon bond* is payable to the bearer and is therefore highly negotiable; that is, it is readily transferred from one person to another. As the interest date of a coupon bond approaches, the owner clips the coupon and deposits it in his bank for collection.

A *registered bond* means that the name and address of the owner and the serial number of the bond are registered at the office of the corporation or its fiscal agent. Interest is paid to the holder of registered bonds by check. Ownership can be transferred only by the registered holder's sending the bond to the corporation registrar to record the name and address of the new owner. Thus, there is less chance of loss than in bearer bonds, which are payable to anyone who presents them, subject to the laws governing negotiable instruments.

THE TRUST FORM OF BUSINESS ORGANIZATION

Sometimes an enterprise is neither a corporation nor a partnership, but a trust. The usual method of forming a trust is to have the owners of the enterprise sign an agreement transferring their rights to one or more individuals, called *trustees*, who then proceed to exercise these rights and conduct the affairs of the business for the period of time stated in the trust agreement.

The advantage of this arrangement is that the trustees can exercise full power during the term of the trust without fear of being unseated by disgruntled owners before they have had time to make a showing. Where two or more businesses are to be combined under one control, the trust device is effective. In order not to be subject to the antitrust laws, however, expert legal counsel is highly desirable. The trustees have responsibilities similar to those of directors within the limits of the trust agreement that creates the trust. Because the owners are thus giving up control of their business, the trust agreement should be carefully drawn and should provide for regular reports to the owners, as well as a stated time for its termination.

Trustee certificates are issued to owners as evidence of their participation in the trust; these certificates are quasi-negotiable, the same as stock certificates; that is, they may be transferred from one person to another.

THE COOPERATIVE FORM OF BUSINESS OWNERSHIP

The cooperative is an old established form of business ownership, the history of which goes back more than a hundred years. The fundamental principle of the cooperative is the sharing of

profits by members according to their individual purchases. This sharing of profits reduces the cost of a member's purchases, which was the original idea of the cooperative and is still the main incentive for joining one. If a member does not buy from the cooperative, he does not participate in the profits, called *patronage dividends*. Ordinarily, anyone may buy from a cooperative, which generally sells to all customers at prevailing prices, but only members share in the profits, which usually are determined and distributed at least once a year. This method of sharing profits is peculiar to the cooperative.

Each member of a cooperative owns one or more shares, as limited by the cooperative's charter or by state law. His share ownership entitles him to at least two privileges: (1) a share in the profits according to his purchases; and (2) a vote at meetings of members, as provided by state law or by the articles and bylaws of the cooperative. Some states require a cooperative to pay a limited dividend to its shareholders before distributing patronage dividends. The voting privilege is similar to the voting privileges of the stockholder of a corporation, with this difference: the cooperative member has only one vote, regardless of how many shares he may own; while the stockholder of a corporation has as many votes as he has shares of voting stock.

From this point on, the organization and conduct of a cooperative is the same as that of a corporation, a voluntary association, or a trust, depending on which of these three forms the organizers decide to use. A manager is elected, appointed, or hired, who then proceeds to conduct the business in the same way that any other business is conducted—buying, selling, manufacturing (if it is a manufacturing cooperative), hiring and supervising help, and so on. His success will be determined largely by his ability to show a profit. The profit records of cooperative societies vary widely; some cooperatives have been outstandingly successful, and others have been flat failures, with all degrees of differences in between. Like every business, the success or failure of a cooperative is largely dependent on the quality of its management, since the operations of a cooperative, once formed, are the same as those of any other business.

In this chapter, we have examined the various ways that a business may be owned and have seen the advantages and disadvan-

tages of each form. We have learned that the legal effects of each form also must be considered in making a choice. However, it is one thing to own a business; it is something quite different to run a business successfully. To own a business may require nothing more than the possession of or accessibility to financial resources; to run a business successfully requires the ability to organize, direct, and control one's resources—money, men, machines, materials—toward the accomplishment of a predetermined objective. In the next chapter, therefore, we shall see how an organization may be planned, developed, and built up to perform the work necessary to make the business a success.

QUESTIONS FOR REVIEW AND DISCUSSION

1. Name the advantages and disadvantages of having public businesses privately owned.
2. State the advantages and disadvantages of having all businesses publicly owned.
3. Why do the basic principles of sound organization and management apply to all businesses, whether public or private?
4. Should the owners of a private business suffer any losses resulting from the operation of their business? Why or why not?
5. Should a public business be operated at a profit? Why or why not? If the profit earned by a publicly owned business helped to reduce taxes, would your answer be the same?
6. Discuss the advantages and disadvantages of individual proprietorship.
7. What is the purpose of requiring licenses for some businesses?
8. Explain the difference between the internal operation of a business and its external operation.
9. Explain what is meant by social legislation, and state its purposes.
10. Why should government regulate the hiring, paying, and discharging of employees of a private business?
11. When is a business affected by a public interest?
12. How may an individual protect against loss by his death someone who has lent him money? Who would pay the charges for this protection? Why?
13. Is it fair for a capable employee of an individual proprietorship to demand a share in the business under threat of withdrawing and starting a competing business? Explain.
14. If you were the capable employee, which would you prefer, to become a partner or start a business of your own? Why?

15. Why are creditors likely to favor a partnership over an individual proprietorship? Is this attitude reasonable? Why or why not?
16. State the two most significant features of the partnership form of business organization.
17. Why should each partner have full power to act for the firm and be able to bind it in matters relating to the firm's business?
18. What law or laws govern the partnership relation?
19. Explain why an agreement between actual partners is necessary. Must it be in writing? Discuss this.
20. How are profits and losses shared among partners if there is no express agreement among them? Is that fair? Why or why not?
21. To what extent does an agreement between partners that limits the losses affect creditors? Why? Is this fair? Why or why not?
22. To what extent is an agreement between partners that limits the authority of a partner binding on third parties dealing with the partnership?
23. Is there any obligation on the part of an incapacitated partner to allow additional compensation to a partner who carried on during his incapacitation? Is this fair? Why or why not?
24. How may the burden of dissolution by the death of a partner be alleviated? What precautions should be observed?
25. What effect, if any, does the death of a partner have on his liability for partnership debts? Explain.
26. State the two main advantages and the main disadvantages of a corporation as a form of business ownership. Are these really advantages and disadvantages? Why or why not?
27. Who owns a corporation? Who manages it? Who appoints the officers? Who hires the employees?
28. Explain the meaning of the term "limited liability" as applied to stockholders in a corporation.
29. What is meant by perpetual existence of a corporation?
30. In what ways may a corporation ordinarily be dissolved?
31. How may a corporation be formed?
32. Explain the meaning and significance of these statements: "A corporation is an artificial person." "A corporation exists separately from its owners or managers."
33. What is a minority stockholder?
34. How can you tell what a corporation is empowered to do?
35. What is the difference between a domestic corporation and a foreign one? Explain the geographical limits within which a corporation may do business.

36. Define or explain par value, book value, and market value of stocks, and explain the relation, if any, of each to the others.
37. What are the differences between common stock and preferred stock? How would you know exactly?
38. Why are bondholders considered creditors of a corporation? What security is there for the repayment of a bond?
39. What are the advantages and disadvantages of the trust form of business ownership?
40. What is the fundamental principle of the cooperative form of business ownership and the main incentive for joining a cooperative?
41. Do the shareholders of a cooperative participate in the profits if they do not make any purchases from it? Why or why not?
42. What is the test of a successful business cooperative? Are all cooperatives financially successful? Why or why not?

TOPICS FOR RESEARCH

1. Select a local business that is conducted as a partnership, and ask one of the partners, preferably the senior partner, if he has a written partnership agreement. If he has, ask him if he would be willing to show it to you or to go over it with you. Make a list of the points that the agreement covers, being especially careful to omit any confidential items such as names or figures. Ask the partner the reason for including any provision that may not be clear to you.
2. If there is no written partnership agreement, ask the partner if there is an oral agreement and why they did not put it in writing. Ask him also to explain to you any details of the oral agreement that he is willing to discuss. Be sure to respect carefully any restrictions he may place on confidential information.
3. If there is a cooperative in your town or city, ask the manager to explain to you how his cooperative is organized and managed. Ask him about prices as compared with other local stores and also about patronage dividends.
4. If there is no cooperative near you, write to one of the following for such information regarding cooperatives as they are willing to send you: Eastern Cooperative Wholesale, Inc., Kent Street, Brooklyn 22, New York, or New England Cooperatives, Inc., 167 Albany Street, Cambridge 39, Massachusetts. Names and addresses of other regional cooperatives may be found in the yellow

pages of the telephone directory under "Consumers' Cooperatives."

PROBLEMS

1. Mr. Allen, owner of a furniture store, had a salaried buyer with authority to buy furniture for the store. While attending the annual exhibition for the trade, the buyer placed orders for \$40,000 of various furniture lines. The usual purchases had been around \$15,000. The furniture was delivered to the store, received, and accepted. Because of poor business and slow sales of furniture, about half of the merchandise remained unsold, and the store had paid only half of its bill for the furniture. If Mr. Allen refused to pay the remaining half of the bill, could the creditors collect it from the buyer, who owned considerable property in his own name? Why or why not?
2. In a partnership business, Mr. Brown owned \$50,000 interest, Mr. Carr \$25,000, and Mr. Dunn \$1,000. The firm failed. All the partners were bankrupt except Mr. Dunn. If the debts were \$38,000, how much could Mr. Dunn be compelled to pay? Why?
3. Mr. Barr, a member of the firm of Barr and Byrd, decided to withdraw from the firm. Mr. Byrd agreed to assume the firm indebtedness of \$3,000 and to pay Mr. Barr \$10,000 for his share of the business. Before any of these debts were paid, Mr. Byrd failed, paying off only 10 cents on the dollar. How much would Mr. Barr lose through the failure? Why?
4. When Mr. King bought an interest in the partnership business of Lloyd and May, the firm owed \$1,000, which Mr. King did not agree to assume. Subsequently, Mr. Lloyd gave a note for \$300 in the name of the new firm to one of the creditors. Is Mr. King liable for any part of this note? Why or why not?
5. Mr. Burr of the real estate firm of Burr, Brown and Company bought for the firm a \$10,000 property, without the consent of his partners. It proved to be a bad investment and was sold for \$7,000. How much would Mr. Burr lose in case the three partners owned equal interests in the partnership? Why?
6. Mr. Carson and Mr. Dalton agreed to buy 4,500 bushels of wheat and divide it according to the amount each man invested. Mr. Carson furnished \$3,000, and Mr. Dalton \$1,500. Mr. Carson sold his share at a profit of 10 cents a bushel, and Mr. Dalton sold at a loss of 10 cents a bushel. Is this a partnership? Why or why not? How much did each gain or lose?

7. Mr. Carr and Mr. Crown agreed to buy and sell 10,000 bushels of wheat, dividing the profits or losses according to the amount each invested. Mr. Carr put in \$3,000, and Mr. Crown \$9,000. Mr. Carr sold 4,000 bushels at a loss of 10 per cent, and Mr. Crown sold 6,000 bushels at a gain of 10 per cent. How much did each gain or lose? Why? Is this a partnership? Why or why not?
8. When a corporation was organized, Mr. Nelson purchased 100 shares of stock for \$1,000. The company failed, owing large sums of money. The par value of the stock was \$100 a share. How much must Mr. Nelson pay? Why?
9. Mr. Rand bought \$1,000 of stock at par in a newly organized corporation. The stock was nonassessable and fully paid. The corporation failed, owing \$100,000. How much does Mr. Rand lose? Why?
10. The partnership of White and Black reorganized as a corporation with a capital of \$50,000 in shares of \$50 each, par value. White's share in the old firm was \$12,500, and Black's was \$18,000. How many shares should each receive, and how much stock would remain in the treasury? Why?
11. The Crown Piano Company, with a capital of \$1,000,000 (shares, \$100 par value), declares a dividend of \$125,000. How much would a stockholder owning 120 shares receive?
12. An assessment to meet a loss of \$25,000 is levied by a corporation with a capital of \$500,000. How much will Mr. Poole, who owns 500 shares of par value \$100, be required to pay?

CHAPTER III

How Business Is Organized for Work

In this chapter, we are concerned with how a business owner or manager builds up an organization to do the work necessary for the successful operation of the business. Back of every successful business, large or small, there is a man or a group of men who have clearly conceived ideas of what they propose to do to make their business successful. They know that, fundamentally, business success means selling the product or service for more than it costs to produce it, and keeping everlastingly at producing and selling. They also realize that they cannot do this alone; they must have the help of others—that is, an organization. Before going into details on the methods of building a successful working organization, however, let us first review briefly the components required for a successful business.

COMPONENTS OF A SUCCESSFUL BUSINESS

First, the business must have a product or service for which there is a need, either actual or potential, that is not already being satisfactorily met. The procedure by which such a product or service is selected and perfected is known as product analysis or product research and is described in a later chapter on sales.

Second, the business manager must know where the actual or potential market for his product or service is, and how to reach that market, as well as the probable cost of reaching it and the effectiveness of the competition, if any, that he will have to meet. This procedure is known as market analysis or market research and is also explained in the chapter on sales.

Third, the manager must have a plant (if the business is manufacturing), a store (if the business is merchandising), or an office (if the business is a financial one, such as insurance, banking, or investment), and so on. How the building or location is selected and how the equipment needed is determined and selected are explained in the chapter on physical facilities.

Fourth, employees must be selected, hired, trained, and supervised. The chapter on personnel describes the techniques involved.

Fifth, the finances of the business must be carefully and wisely managed; the amount of money needed must be determined; the sources from which money may be obtained must be ascertained and arrangements made; and the expenditure of the money must be planned and administered with care. The chapter on finances goes into detail on these items.

With the above business components in mind, we can now study how a competent business manager proceeds to build up his organization.

FUNCTIONS AND PROCEDURES REQUIRED

The manager must determine what functions and procedures will be required. Normally, someone must sell the goods or services to present and prospective customers; salesmen will be needed for that purpose. Orders turned in by the salesmen must be handled expeditiously and filled promptly and accurately. Someone must be made responsible for that work. Invoices must be made out and charged to customers' accounts; someone must do that work. Someone must pass on credits and collect the money owed for goods or services sold. Someone must buy materials, equipment, and supplies. If the business is manufacturing, someone must produce the goods to be sold. The technical features involved in all this work are explained in later chapters. We are concerned now with the fact that there must be people to do these things and that their efforts must be directed and supervised and controlled.

WHEN IS ADDITIONAL HELP NEEDED?

In many small one-man businesses, all these tasks may be performed by the same person, the owner. Especially is this true

where one man starts a business alone and requires additional help only when the business grows beyond the limits of his own capacity to handle all the details himself. When he finds that the day is not long enough for all the work that needs to be done, then he must hire someone to help him. But the problem is more than merely hiring an assistant; he must find the right person.

In every organization, there is work to be done

What is the work?

How shall it be done?

Who shall be assigned to do it?

What facilities will be needed?

What directions are necessary?

How shall those directions be given?

How shall the workers be supervised?

How can the results be checked and controlled?

After he has decided which part of the work he will turn over to someone else, he must find an assistant as good as he is for this particular work. In other words, he must duplicate his own ability. Not all managers understand this problem, which is the same for every business, large or small. Very successful businessmen are not even satisfied with duplicating their own ability; they want men with more ability. On the tombstone of Andrew Carnegie is the epitaph: "Here lies a man who knew how to get around him men who were cleverer than himself."

The founder of a successful business usually is many-sided. He is likely to be a good salesman. He is a good manufacturer, if the business is manufacturing. He has money sense. He is a good judge of men and knows how to handle them. He is a captain of industry.

ONE TALENT—OR MANY?

To expect to find all these characteristics in every individual is asking too much. Undoubtedly, many more persons possess these characteristics than use them, perhaps because of a lack of industry or of incentive. The captain of industry drives himself and is inclined to drive others. He expects and often demands that his associates display the same industry and interest that he does. Or-

Responsibilities of Management

- I. Analyzing and testing the possibilities for a business (supply a human need that is not already satisfactorily met)
 - A. Market analysis (may be made by professional researchers)
 1. What is needed? (demand)
 - a. What is the present supply? (competition)
 - b. How effectively is this need now supplied?
 2. Where is it needed? (market)
 3. Methods of reaching the market
 4. Cost of reaching the market
 - a. Producing costs
 - b. Distribution costs
 - B. Product analysis (may be made by research organizations)
 1. Is there a real demand for this product or service?
 2. What is the best design? (form of product or service that will best meet the demand)
 - II. Deciding what to make or sell
 - A. Selecting the line (product or service)
 - B. Modifying the product or service as customers' needs indicate
 - III. Determining what results are to be secured
 - IV. Planning how these results are to be secured
 - V. Managing the finances of the enterprise
 - A. Determining how much money is needed, and when it is needed
 - B. Ascertaining where money may be obtained, if not on hand
 - C. Seeing that money is available, when and as needed
 1. To start the business
 2. To keep the business going
 3. To expand wisely
 - D. Controlling the planning and expenditure of funds
 1. Preparing the budget
 2. Administering the budget
 - E. Keeping proper balance between capital and revenue expenditures
 - VI. Building or securing plant and equipment
 - A. Equipment
 1. Determining equipment needed
 2. Selecting type of equipment needed
 3. Providing adequate equipment
 - B. Plant
 1. Determining space needed
 2. Determining type of building needed
 3. Considering factors bearing on location
 4. Building, buying, or renting the building or space needed
 - VII. Planning the organization, building the organization, and developing it
 - A. Determining what departments are required
 1. Personnel required
 2. Executives required

- B. Formulating procedure based on practical and economical methods
 - 1. Establishing efficient routines and processes
 - 2. Determining what records shall be kept
 - 3. Providing for keeping the necessary records
 - a. With maximum efficiency
 - b. At minimum cost
- C. Selecting trained or capable executives and other personnel
- D. Determining remuneration of executives and other personnel
- E. Assigning functions logically, to competent individuals
- F. Directing the organization
 - 1. Assigning duties or responsibilities
 - a. By issuing orders or instructions to the individuals
 - (1) Who are to carry them out, or
 - (2) Who are to see that they are carried out
 - 2. Coordinating executive effort
- G. Controlling the organization
 - 1. Seeing that assignments are carried out properly
 - 2. Securing cooperation within the organization
 - 3. Eliminating undesirable tendencies
- H. Procuring and maintaining a suitable supply of labor
 - 1. Supervising and coordinating its efforts
- I. Getting and sustaining proper relationships between owners, management, and workers
- VIII. Producing the product or service
 - A. At a cost that will permit selling it
 - B. At a price that will show a margin after all expenses have been paid
- IX. Making every effort to get and increase sales within reasonable sales costs
 - A. Effective sales management
 - 1. Advertising
 - 2. Mail order
- X. Balancing production with sales
 - A. Utilizing plant and equipment economically and effectively
 - 1. Providing effective arrangement and layout
 - 2. Planning, scheduling, and dispatching
 - 3. Providing for maintenance, repair, and replacement
 - B. Stimulating the organization to sustained cooperative effort
 - C. Procuring adequate supplies of raw materials
 - D. Keeping production costs at low level
 - E. Keeping quality of product up to standard
 - F. Keeping quality of service up to standard
- XI. Establishing and maintaining sound business policies
- XII. Keeping the management sold to the directors or owners

dinarily, he provides an incentive. He makes it worth while to put forth the effort to get the desired results. That he gets the results, no one will deny.

Although it is unreasonable to expect every individual or even any considerable number of individuals to possess all the characteristics just mentioned, there is every reason for believing that most men possess one or more of these characteristics. The employer's problem, then, is to find the particular individual who has the specialty he needs, plus the desirable personal traits of loyalty and industry.

Suppose that the work to be turned over to an assistant is selling. But what kind of selling? Is standing behind a counter, taking the customer's money, making change, and wrapping the goods all that is required? That's all Mr. Woolworth required of his salesgirls, and he paid them accordingly. Or will the salesperson be expected to show merchandise, point out its special features, and actually induce the customer to buy without seeming to use so-called "high-pressure" methods? Will the salesman be expected to travel from town to town with samples and take orders to be produced at the plant and shipped to the customer?

Each of these three different types of salespersons is selling merchandise, yet it is obvious that we would not expect any one of the three to handle too satisfactorily the work of either of the other two.

HOW WOULD THE BOSS SELL THE PRODUCT?

What would the boss himself do in each of these cases? As a counter salesclerk, he would be sure to check the price and quantity of goods that the customer selected. He would make change accurately. He would wrap the goods in an attractive package, which the customer would not be ashamed to be seen carrying; he would not drop the articles in an oversized crumpled paper bag. And as he handed the package to the customer, he would say pleasantly, "Thank you!" These are simple things, yet they make the difference between a successful salesperson and a mediocre one. The right person must be selected, he must be trained and coached, and he must be supervised. As far as possible, the manager or owner should try to find an assistant who will handle a job as well as he himself would do it.

How would the boss handle the job of selling clothes or furniture in a retail store? First, he would be interested in three things. (1) He would be interested in the merchandise, its fine points, how it is made, how it can be used, and how it will wear. (2) He would be interested in the customer, his likes and dislikes, the use the customer has for the merchandise, and the price he is willing to pay. (3) Finally, the boss is interested especially in fitting the merchandise to the customer's needs, so that eventually the store has a satisfied customer, who has purchased something he can use and enjoy, and feels that he has paid a fair price. A satisfied customer is the best advertisement for a store. So far as possible, therefore, the manager or owner should try to find an assistant who can duplicate his ability on this job.

And how would the boss handle the job of traveling from town to town to call on customers, show the line, and take orders? Again, he would be thoroughly conversant with his merchandise, with the nature of the customer's business and trade, what to say and when to say it, when to ask for the order, and how to write up the order completely and accurately, so that no error will be made in filling it. The manager or owner would try to find an assistant who could be trained to do as well as he himself would do this job.

SALES OR MANUFACTURING—IT'S THE SAME PROBLEM

Suppose the boss wants someone to take over the manufacture of the product, which he himself has handled up to now. What are some of the points he has to consider? If he has built the business on the basis of a first-class product, plus service, he realizes that whoever is responsible for making the product must be concerned primarily with maintaining the same high quality that has been established. So long as the owner himself continues to manufacture his product, he can see that the quality is maintained; he will not take the chance of losing his trade by reducing the quality.

But will an employee exercise the same care and interest as the owner? To him, this may be just another job; if he loses it, he can step into another one, if times are not too hard. The owner's problem is to find a man who is as good at manufacturing as he is, who will take an interest in maintaining the present high standard of

quality, and who will at the same time keep production up to the volume required by sales.

HOW ONE MAN MET THE PROBLEM

Let us see how one man solved this problem. John Hall had built up a small food business to the point where he required help. Up to this time, he had been doing all the work himself—calling on customers in the afternoon and taking orders, making the product at night, and delivering it the next morning. He was overworked.

Hall decided to hire someone to look after the kitchen end of the business. He took plenty of time to consider applicants and finally chose a young woman named Emma Smith, who seemed to have all the qualities he needed. She had a good home background; she had a thorough training in cookery and in the chemistry of foods; she was robust and industrious; and she had a reputation for honesty and loyalty. Mr. Hall hired her.

Did Mr. Hall immediately turn over the food preparation to Emma Smith, with all her good qualities? Hardly. The first thing he did was to tell her how he had started the business and built it up. He described some of his experiences and gave her something of the vision he had. He created in her a realization of the fact that her job was not simply to mix some ingredients together and then apply heat. No; she was made to realize that she was not merely making a food product, she was establishing one reputation and upholding another.

Her responsibility was to convince Mr. Hall that she could follow his directions without the slightest deviation, that she could apply the same tests, and that by so doing she could get the same results. At the same time, she was establishing her own reputation for ability and reliability and also upholding the reputation of Mr. Hall's product as the finest and most wholesome product of the kind to be had at any price anywhere.

Next, Hall showed Emma the care and skill with which his product was prepared. Gradually, he let Emma take first this step, then that, until he felt sure that she could and would do as good a job as he. But he still insisted on testing the result before taking it out for delivery. One might think that Emma would not have liked this seeming lack of confidence in her. But Mr. Hall had a

way with him, and she was not offended; rather, she was proud that no fault could be found with the results of her efforts to satisfy her employer. She also realized that if anything was wrong, it was better for Mr. Hall to find it out before the customers did.

It was a relief to Mr. Hall to have the making of the product off his mind. Before long, he hired an assistant to Emma, following the same procedure, and giving Emma the responsibility for results. He knew now that he could trust her.

TRAINING AND SUPERVISION PAYS

Why did Emma turn out so well? Because of the care that Hall took, first in selecting her, and second in giving her a thorough training. He gave her something of his vision, developed in her the pride of doing good work, and then showed her that he trusted her. He supervised her work and paid her well.

As the business grew, Hall decided to make another addition to his organization. This time he decided to hire a young woman with office training. Alice Kenyon, the successful applicant, was a college graduate, a fair stenographer, a good typist, and had a substantial knowledge of bookkeeping and accounting, an attractive personality although she was no beauty, and a well-modulated voice that sounded pleasant over the telephone. She liked people and got along with others admirably. She also liked detail and was industrious, not afraid of doing a good day's work, and not satisfied with a half-done job. She was fascinated by Hall's story of the founding of the business. She and Emma liked each other, and again Hall congratulated himself on his good luck, as he called it. We would call it good sense.

Hall gradually hired more and more assistants and turned over more and more of his work to others. In each case, he followed the same procedure that had worked so well. Eventually, he was not selling or calling on customers any more, or making deliveries, or producing the product, or buying materials, or handling orders or mail or receipts or credits. He now had more time to give counsel and encouragement to the people who were helping him in the business. He helped them work out better ways of doing things. He encouraged the purchase and installation of new and improved machinery for both office and factory; he improved

working conditions. With the help of his assistants, he planned and built a model kitchen-factory for making the product. He printed a picture of the plant on the package and encouraged visitors.

And the people working for him? Did they stick, and did they like working for Mr. Hall? They did, and the reason is obvious. He first used care in selecting his employees, then trained them thoroughly, supervised them adequately, and paid them well. He made it worth while for those who worked with him to keep on doing so. Their spirit was exemplified by their attitude toward their product. It was no longer Hall's product to them; it was "our" product; it was no longer "his" office or plant; it was "our" office and plant.

QUALITY, THOROUGHNESS, INDUSTRY, MORALE

Let us see how Hall brought these things to pass. Perhaps others can put to work the same plans that Hall used in building a small food business into a business that now covers the country and whose product is a household word.

Just how did Hall organize for work? Is there anything he did that could not be done in any other business, regardless of its nature? What was the secret of his success?

Looking over the history of the business, the first noticeable point is Hall's insistence on *quality*—quality of product, quality of employees, quality of work, quality of plant and equipment.

The second point is *thoroughness*, even in the smallest details. Nothing was allowed to go by default. Each new employee was carefully selected, thoroughly trained, adequately supervised, and well paid.

The third point is *industry*. Everybody worked. There were no loafers, no deadheads, no idlers. Everybody worked.

The fourth point is *esprit de corps*, high morale. No feeling that "no one gets anywhere here" or "after all, we're only wage slaves." Hall's people worked for him because they liked to do so. He made it pleasant and worth while, and they repaid him many times over.

Let us reduce these facts to a few simple business points and principles.

FOUR REQUIREMENTS FOR EVERY BUSINESS

First, there is work to be done. What kind of work is it, what ability is required, and what other traits should the person to be selected have?

Second, the new worker must be trained in the correct method of doing the work; he must be watched, guided, and encouraged until he can do the work in the right way.

Third, the worker must be supervised. The main job of a supervisor is to see that there are no hindrances or obstacles to the worker's doing the very best he can. Imagine hiring someone to do some work and then not doing everything possible to enable him to do the work quickly and well.

Fourth, there must be some kind of control to assure that things are moving along according to plan. This implies a plan; it implies knowing what is going on, and it implies doing something about it if something goes wrong or varies from the plan.

All of these can be stated in three potent words: organization, supervision, and control.

THE MEANING OF ORGANIZATION

Organization refers to the plans by which one's resources are arranged and disposed to accomplish one's objective. It includes both human resources and physical facilities, such as equipment, materials and supplies, working conditions, location, and finances. It means the division of responsibilities and the assignment of each responsibility, whether a major or a minor one, to an individual who will be held responsible for properly carrying out his particular responsibility.

Good organization exists when each member of the group, already selected for his competency, is given a definite assignment and a stated time for carrying it out. The assignment is within his ability to perform. He understands what he is to do, how he is to do it, and when. He is provided with the necessary facilities for accomplishing his appointed task, including proper materials, suitable equipment, competent assistance, and adequate supervision. If to this statement is added "under good working conditions," we have an ideal setup for accomplishing any desired results.

Organization is concerned with "who is to do what is to be done." Three questions frequently asked are: "What is to be done?" "How shall it be done?" and "Who shall do it?" The first is a question of policy; policies determine what is to be done under any given circumstances. The second question is one of method; all "how" questions concern method.

The third is a question of organization. What is the setup? To whom has this responsibility been assigned? Often, the problem arises because it has not been assigned to anyone. The responsibility for making assignments is placed squarely on management.

THE MEANING OF SUPERVISION

Supervision has as its object the rendering of assistance to a worker so that he may make the most of his time and effort. The supervisor gives help and encouragement to any worker who may need it. He teaches the worker the correct way to do the work and patiently watches him until he has mastered it. He sees that work is supplied to the worker when and as it is needed. He sees that the work is turned out according to schedule. In addition to these cooperative responsibilities, the supervisor has authority to settle differences as they arise and thus keep order within the unit. In short, the supervisor is directly responsible for the work turned out by the group he is supervising, as well as for the effectiveness of the work of each individual member of the group.

To discharge these responsibilities properly, the supervisor must understand what is required of his group. He must know how to get work done, and he must know when it is being done correctly. He must know how to give orders and instructions so they will be understood and followed. It is highly desirable that supervisors themselves be carefully and thoroughly trained for their jobs, since it is unreasonable to expect anyone to exercise the technique of supervision without being shown what is expected of him and how to go about discharging his responsibilities. The function of supervision is one of the most important in business. Good supervision pays handsome dividends; poor or inadequate supervision is an expensive luxury.

THE MEANING OF CONTROL

Control is essential to the success of a business or any part of a business. *Control* combines knowledge with power, the knowl-

Duties and Responsibilities of the Executive

"An executive is an individual who directs, supervises, or is responsible for the work of one or more other individuals."

1. Responsible for the work assigned to his unit.
 - a. Sees that the work is accomplished in accordance with proper standards of quality, quantity, and expediency.
 - b. Reviews his personnel, equipment, layout, and methods periodically and systematically.
 - c. Recommends additions, reductions, or revisions from time to time, when desirable.
2. Studies and reduces the expenses under his control or makes recommendations as to how they may be reduced.
 - a. Analyzes all operations on a cost basis.
 - b. Reduces overtime to a minimum.
 - c. Constantly on the watch for methods of increasing gross earnings, if his unit produces revenue.
3. Examines the work of his unit from the standpoint of the growth or decline of the business.
 - a. Analyzes causes and seeks to check appreciable decline.
 - b. Cooperates closely with the sales department in furnishing leads for new business.
4. Provides maximum protection for the equipment and machinery of his unit.
5. Selects and places his subordinates with the assistance of the personnel department.
6. Trains his subordinates, using whatever method or combination of methods is most effective.
 - a. Always has available an understudy for every position, including his own.
7. Sees that his unit assists other units and the business as a whole in every possible way.
8. Judges the performance and abilities of his subordinates.
 - a. Recommends to them methods of improving their deficiencies.
 - b. Distributes praise when due.
9. Recommends subordinates for transfer, promotion, compensation adjustment, demotion, and separation.
10. Interprets policies to his subordinates.
 - a. Acts as the medium for the flow of orders and policies from the management to the employee.
 - b. Represents and interprets the management.
 - (1) Accepts full responsibility for carrying out the decisions of the management.
 - (2) Passes on to his subordinates the management's approval or rejection of his recommendations and takes the lead in accepting them.
 - (3) Explains clearly to his subordinates the reasons for the various policies, regulations, procedures, wage

rates, and working conditions, making sure that they are understood and accepted as part of the job.

11. Makes decisions on matters referred to him by subordinates, associates, superiors, and customers within the scope of his authority.
 - a. Is responsible for decisions made by subordinates to whom he has assigned the responsibility for such decisions.
12. Establishes policies and plans the work of his unit within prescribed limits.
 - a. Develops policies applying to his unit alone, schedules work, assigns responsibilities to his subordinates, plans for peak loads, vacations, and so on.
13. Maintains discipline and morale at a high standard.
 - a. Receives the new employee into his unit.
 - b. Helps the new employee to orientate himself.
 - c. Investigates and attempts to remedy signs of restlessness among subordinates, reasons for turnover, salary inequities, and home or other personal difficulties of employees where he can be helpful.
 - d. Listens to and attempts to adjust all complaints.
 - e. Strives to reduce absenteeism and lateness.
14. Leads his subordinates.
 - a. Does not drive them.
 - b. Techniques are those of stimulation and inspiration rather than those of compulsion.
 - c. Induces them to carry out their work in the most efficient manner.
 - d. Arouses their ambition and develops their talents.

(Adapted from H. B. Bergen and G. L. Bergen, "Executive Training Programs," in *General Management Series 107*, published by American Management Association)

edge that one's plans and directions are being followed or disregarded, and the power to compel compliance with those orders and instructions—in short, authority. Control is covered in more detail in Chapter IX.

SAME PRINCIPLES AND FUNCTIONS IN EVERY BUSINESS

Many businesses have been in existence for years. Not all were started as new businesses. The combination and consolidation of two or more businesses result in a third business, the features of which may appear more complicated than the apparently simple setup of a small business. Actually, the functions of a huge cor-

poration are the same as those of a small one-man business. The heads of both the large and small businesses must apply the same principles to conduct the business successfully. There is no difference in principles; the size of a business does not alter the fundamental principles of organization and management. This statement does not mean that a man who can manage a small business successfully can always manage a large one with equal success. The personal element is always a factor.

In every business there are persons who do the selling. There are those who do the buying. Someone has to take in and pay out money, make loans, and deal with banks. Usually, people who are concerned with the same activity or function are brought together in groups or departments. The sales department thus

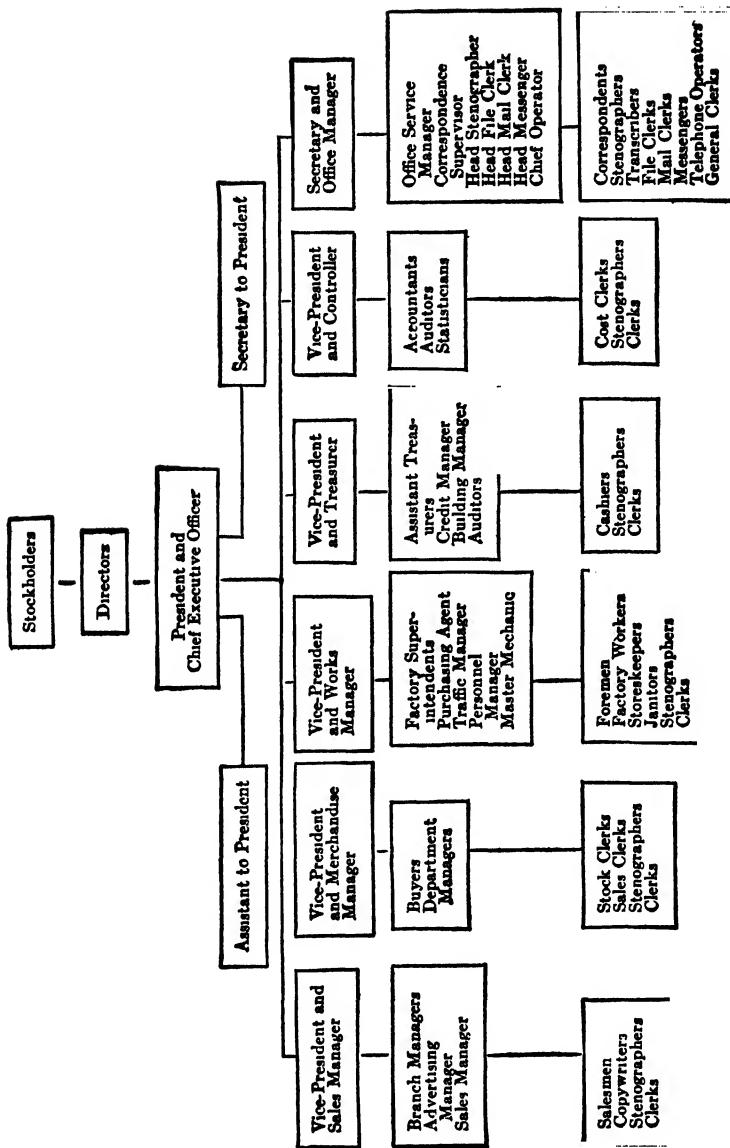
How to Get Work Done

1. Make a list of everything that is to be done.
2. Arrange the items in the order of importance.
3. Determine how long each step will take.
4. Make a schedule, working backward from the final completion date. (This gives the starting time for each task.)
5. Determine the persons who can do each task best.
6. Assign tasks to those persons.
7. See that each person starts his task at the scheduled time.
8. Check the progress of the work from time to time.

contains all the persons concerned with selling activities. The purchasing department contains all those concerned with purchasing activities. The treasurer's department includes all who handle money. There is always a bookkeeping or accounting department to keep the records. There may be other departments, as shown in the accompanying Basic Organization Chart.

THE SIZE OF DEPARTMENTS MAY VARY

The number of employees in a department depends on the volume of work going through it. Some departments may have only one or two persons; others may have several hundred. Even in concerns of about the same size, the size of departments varies.



Basic Organization of a Business Concern
This basic organization chart does not show the details of positions but only the positions themselves.

Organization, Responsibility, Authority

1. Definite and clean-cut responsibilities should be assigned to each executive and to each employee.
2. Responsibility should always be accompanied by corresponding authority. The authority to issue an order carries with it the responsibility of seeing that the order is carried out.
3. No change should be made in the scope or responsibilities of a position without a definite understanding to that effect on the part of all persons concerned.
4. No executive or employee who is occupying a *single* position in the organization should be subject to definite orders from more than one source.
5. Orders should never be given to subordinates over the head of a responsible executive.
6. Criticisms of subordinates should be made privately whenever possible; in no case should a subordinate be criticized in the presence of executives or employees of equal or lower rank.
7. No dispute between executives or between employees as to authority or responsibility should be considered too trivial for prompt and careful attention and settlement.
8. Promotions, wage changes, and disciplinary action should always be approved by the executive immediately superior to the one directly responsible.
9. No executive or employee should ever be required or expected to be at the same time an assistant to and critic of another.

(Adapted from Col. M. C. Rorty, "Ten Commandments of Good Organization," published by American Management Association)

In the credit department of one company, for instance, there are nearly 60 persons; while in the credit department of another company doing about the same volume of business, there are only 4. This variation is explained by the fact that the first company is handling a large number of small orders, while the second is handling a small number of large orders. It takes a larger department to handle 100 orders of \$50 each than to handle 2 orders of \$2,500 each.

Basic Organization Types

Line Organization (Military Organization)

All instructions and orders are issued through the executive or subexecutive directly and exclusively in charge of his subordinates, who look to him as the sole source of authority. He reports to one higher executive and receives all orders and instructions from that single higher executive. He has complete command over all the factors concerned in the operation of his department or group and exercises what is called "line authority," that is, authority to get action.

Line-and-Staff Organization

Here the line executive has staff advisers, who have no direct authority over the workers. The staff investigates, finds the facts, makes reports to, and advises the line executive, who has the final word, that is, line authority.

Functional Organization

In this type of organization, each function is in charge of a specialist who has line authority and control over his particular function wherever it is found throughout the business.

Committee Organization

The theory of committee organization is that several individuals will view a subject from different angles, thus arriving at a sounder decision than would a single individual. An advisory committee is like the staff in a line-and-staff organization—it simply advises or finds facts, but has no authority to compel action. An executive committee, on the other hand, has authority to see that its orders and plans are carried out. The main objection to committee organization is that it takes longer for several persons to come to a decision than for one. Also, unless the chairman keeps to a prearranged order of business, time is likely to be wasted in futile talk.

DEPARTMENT HEADS AND GENERAL OFFICERS

In charge of each department is a person called the department head. Frequently, he has a title, such as credit manager or purchasing agent. A large department usually is divided into divisions, and divisions into sections, each section being in charge of a section head, who may be called a supervisor, chief clerk, or foreman.

Over all departments are one or more general officers, such as vice-presidents. In one company, for instance, one vice-president is in charge of all sales activities; under him are the sales manager, the advertising manager, and the branch managers. Another vice-president is responsible for all manufacturing activities; under him are the plant superintendent, the purchasing agent, the storeskeeper, and the traffic manager. The treasurer handles all financial and money matters, including the credit department, the cashiers, the voucher section, the accounting and bookkeeping department, and so on.

At the top of the concern is the president and general manager, who is held responsible for the success or failure of the business. He must see that the business functions smoothly, that all departments do their work properly and promptly, in cooperation with each other.

In an individual proprietorship, the president is usually the owner of the business. In a partnership, one member may be president, and another the treasurer. In large partnerships, there may be several partners, each with his special responsibilities, which may or may not be indicated by his title.

THE BOARD OF DIRECTORS

If the business is a corporation, there will be a board of directors to whom the president is responsible and from whom he takes his orders. The board of directors is elected by the stockholders at the annual meeting and has full power and authority over the affairs of the corporation from one annual meeting to the next. The chairman of the board, who may have been president before he became board chairman, is always available to the president of the corporation for advice and counsel, especially in matters affecting important company policies.

Additional Points on Organization

1. Authority to make decisions should be vested as near as possible to the point of original action.
2. Responsibility for action and authority to act should be placed at as low a level of the organization's structure as is possible.
3. There should be a clear statement of the functions at each level of authority and a clear statement of the responsibility and authority of every person in the executive, managerial, and supervisory levels.
4. Competent persons should be placed in all key¹ positions at all levels of authority.
5. The span of an executive's authority² should be limited to the number of subordinates whose activities he can effectively direct, coordinate, and control.
6. Policy with respect to all phases of operation should be definite and clear-cut and worded in standard terms.
7. Definite objectives and suitable measurements of accomplishment should be established for each department and subdivision.

(From "Organization Patterns and Principles," by Harry J. Volk, second vice-president of The Prudential Insurance Company of America)

¹ Webster defines "keyman" as a person doing such work in an organization that his services are indispensable.

² This is often called "the span of control."

ORGANIZATIONAL FACTS ABOUT ALL BUSINESS

Business activities are carried on largely by persons who work under the direction and supervision of other persons. Generally speaking, those who do the work are called workers (salesmen, clerks, employees), while those who direct and supervise the workers are called managers (supervisors, department heads, employers). For example, the sales manager directs and supervises the work of his salesmen; the credit manager directs and supervises the work of the credit department; the office manager directs and supervises the office work; the foreman directs and supervises the work of the people in his unit.¹ The workers are responsible

¹ The word "unit" often is used to indicate any group that is one of a number of groups. For example, if a department has four divisions, each division is a unit; if a division has five sections, each section is a unit; and so on.

for doing the work. The managers are responsible for seeing that the work is done and that it is done correctly and promptly.

Formerly in business, there were no uniform methods of doing work. Each person did his work about as he pleased and as long as he completed it, no questions were raised as to how he did it. Gradually, it was found that there is a best way of doing any kind of work. A good manager makes a point of finding that best way and teaching it to his workers, making sure that they not only understand what they are to do and how to do it, but that they do it in the way specified.

If people could work without supervision, managers would not be needed. But most persons do not work well of their own accord; they need someone to show them what to do, how to do it, and to see that they do it. Furthermore, if the responsibility for making decisions were left to the workers, each person would have a different idea; there would be a lack of agreement, resulting in discord, dissatisfaction, and lack of accomplishment. Leadership is necessary.

No business is better than the individuals who manage it. This is true, whether the business is a huge corporation or a small neighborhood store or service station run by one man. The individual who knows how to manage well, *and applies his knowledge*, always does a better job.

The main structure of every business is the same. There must be people to do the work, and managers or supervisors to direct their efforts. The difference is in the nature of the work done, the services rendered, or the products made or sold.

To appreciate the variations in organization structure of all types of business enterprise, one should examine the compilations and studies of organization charts that have been made by analysts. The complications of some organization structures are amazing; the simplicity of others is equally so. But in the final analysis, the organization structure consists of employees to do the work, supervised and directed by managers who are held responsible for the success or failure of their respective units.

QUESTIONS FOR REVIEW AND DISCUSSION

1. Name the five components required for a business to be successful.

2. What is the first step in building up an organization? Why?
3. At what point does the owner of a small business realize that he must hire someone to help him?
4. Why is the founder of a successful business usually many-sided?
5. In hiring an assistant, what should the employer's attitude be? Why?
6. Describe how John Hall built up his organization from a one-man business to a nation-wide concern.
7. What steps did Hall take in hiring new employees? Why did he go to all that trouble?
8. Why did Hall's employees like to work for him?
9. Name the four points that Hall insisted on, and comment on each one briefly.
10. What four principles are included in organization, supervision, and control?
11. Explain "organization," and define "good organization."
12. Comment on the three questions about work to be done: "What?" "Who?" "How?"
13. Describe or explain "supervision."
14. How does a good supervisor discharge his responsibilities?
15. Explain this statement: "Control combines knowledge with power."
16. What does an organization chart show?
17. What is the purpose of having one or more departments in a business?
18. How many persons make up a department? How would you know?
19. Why is the president and general manager of a corporation held responsible for the success or failure of the business?
20. To whom is the president of a corporation responsible? Why?
21. What power and authority has the board of directors of a corporation?
22. Explain this statement: "Business activities are carried on largely by persons who work under the direction and supervision of other persons."

TOPICS FOR RESEARCH

The following suggestions for carrying out student assignments will be found helpful in two ways: first, they show students how to apply to their own problems of organization the same principles of organization for work that apply to all management problems: second, they

may be used in carrying out many of the assignments in other chapters of this book.

1. Let five students work together on this problem, each student being held responsible for some definite part of it. In determining which five students shall work together, select those whose interests are similar. Let the group meet as a Committee on Office Jobs and organize by selecting a chairman and a secretary.

The chairman's duties are to call meetings of the committee, to preside over them, and to assign a part of the work to each member of the committee. The duties of the secretary are to take minutes of the meetings and to receive and hold the material collected by the members until it is turned over to the instructor. Both chairman and secretary are to carry out assignments the same as other members of the committee.

The object of the committee is to make a report on office jobs that exist in the locality—not only those that may be open, but *all* office jobs. To get this information, determine in a committee meeting which concerns shall be visited, and then assign to each member of the committee the offices that he is to visit. Have each member clearly understand that he is to get the following information:

- a. Name and address of the concern.
- b. Name of the office manager.
- c. Name of the employment manager.
- d. Approximate number of office workers now employed.
- e. Titles of all the office positions in the firm. (Some concerns may be willing to state the salary of each job, but it must not be expected that every concern will do this.)
- f. Approximate ages of the workers in each job listed (at the time the survey is made).

When the complete assignment has been given to each member of the committee, set a day and time for the next meeting, when each member will report what he has done.

After all the information has been collected, it should be tabulated in three ways and analyzed:

- a. Arrange alphabetically by company names.
- b. Arrange alphabetically by the kinds of business.
- c. Arrange alphabetically by job names, showing for each job how many jobs there are in each company.
- d. What is the object of this problem? (To determine the object of any procedure, consider what you are expected to have accomplished when the work is all done.)

- e. What organization is set up to attain this object? Why?
- f. Show how each of the following four principal functions of sound organization methods are brought out in this problem:
 - (1) Determining the object to be accomplished
 - (2) Selecting the people who are to do the work
 - (3) Assigning a definite task to each member of the group
 - (4) Following up the individual assignments

What obstacles to the collection of the desired information are the members of the committee likely to encounter? How would you meet these obstacles to try to overcome them? (Remember that there is always a way over, under, through, or around any obstacle.)

- 2. The preceding assignment covers office positions only. There are also many employees in other positions, such as sales, factory, or service. Separate committees may be appointed to secure for these positions the same information as listed above for office positions. If more than one committee is appointed, care should be exercised to see that they do not work at cross purposes; that is, their efforts must be coordinated. This may involve having a "coordinating committee" composed of perhaps one member from each committee and one student not on the other committees to act as chairman of the coordinating committee.
- 3. Select a local concern with a reputation for being well organized and well managed. Call on the general manager and ask him how he keeps things running so smoothly. A good way to prepare for such an interview is to jot down ahead of time the points to be covered in case the manager should overlook some. Calls are best made by two students together, each supplementing the other. Their report to the class should be a joint report, with such additional statements as each might like to make, not necessarily in agreement with each other. After the report has been made to the class, the class should have the privilege of questioning the reporters. A comparison of findings on a number of concerns may be made by assigning several two-student groups. Students should remember that they are trying to ascertain the principles and methods of the concerns visited, not private information.
- 4. The report on topic 3 is concerned with the business as a whole. The range can be reduced by limiting the report to a department in a business. Ask a general manager to let a two-student committee interview a department head who has his unit well organized.
- 5. Find out how many chain-store organizations there are in the United States, and how many units (stores) are thus operated.
 - a. Divide the number of chain-store organizations into fields, such

as foods, automotive, and dry goods, showing how many organizations are operating in each field, and the number of units thus operated.

- b. Why should there be so many more of one kind than of the others?
6. See if you can find any fields of distribution in which there are no wholesalers. Give an explanation for what you find. Be sure to give your sources of information.
7. Make a comprehensive list of all the service businesses you can find. Ascertain how many of these are owned by individuals, partnerships, or small corporations, and how many are owned by chains or by large operators. From these figures, give reasonable conclusions as to:
 - a. Size of service businesses generally
 - b. Geographical distribution of service businesses
 - c. Number of individuals owning, operating, or employed by service businesses
 - d. Possibilities for an individual to enter a service business
8. List as many businesses as you can find that are owned or operated by the United States Government, directly or indirectly. Examine the list carefully, and then state why you think the Government is operating these businesses instead of letting them be operated as private enterprises.

PROBLEMS

1. In a certain medium-sized corporation, the controller is independent of everyone except the board of directors, to whom he is directly responsible. Steps are being taken to make him responsible to the treasurer, who is responsible to the president, who, in turn, is responsible to the directors. A number of considerations present themselves, such as the advisability of the proposed changes, whether some other arrangement might not be better, and how to bring about whatever change is ultimately decided on. Let one student represent the treasurer, another the president, and a third the controller himself. Let each draw up a statement, setting forth the reasons why the change should or should not be made, as the case may be; that is, the president and the treasurer want the change made, while the controller does not. When all the participants have their statements ready, let a fourth student act as chairman of the board of directors, to preside impartially and to keep peace while the interested parties present their arguments.

The rest of the class may act as the board of directors, with the privilege of asking questions of each participant, *after* he has presented his formal statement.

2. After 12 p.m. in a certain building, there are only two men; the night telephone operator and a watchman. The watchman is required to keep the fires going, stoke out clinkers, carry coal, and carry out ashes on a hoist, besides making his rounds as watchman. He frequently misses his rounds because of the other duties. The company subscribes to a protective service that calls the operator when the watchman fails to punch his clocks on time. If the operator cannot reach the watchman, the detectives race out to the plant from the city and start an investigation, which is not very pleasant. What should be done? There are at least three possible solutions to the problem; there may be more.
3. In a small family-owned and -operated neighborhood grocery store, the father, mother, and son tend store. The father gets along well with the older customers, but not so well with children. The mother and son get along all right with the young customers. What suggestions can you make that will insure all customers being pleasantly served? Give your reasons.
4. A garage owned by two partners provides live storage for its customers' automobiles, which it also services. The garage sells gasoline, oil, tires, and accessories to the public and advertises a repair service for all makes of cars. Besides the two partners, both of whom are skilled automotive mechanics, there are four competent mechanics, one porter, and two helpers who dispense gas and oil and check tires and water. In their anxiety to give the best possible service to their customers, each partner feels responsible for everything that is done. As a result, there are frequent disagreements, each partner issuing orders that often conflict and are embarrassing to both customers and workmen. What steps would you suggest to organize this garage for work without conflict? Give your reasons.
5. In a large retail department store that does a credit business, the money is slow in coming in because the bills do not go out promptly. Each department of the store is responsible for its own billing. What suggestions would you make to remedy the situation? Give your reasons.
6. The sales department and the credit department of a manufacturing company are continually disagreeing with each other. The sales department claims that its lessened sales are due to the slowness of the credit department in passing on orders. What do you suggest should be done? Why?

CHAPTER IV

Organization for Finance

Since the primary purpose of a business enterprise is to make a profit, the handling of the finances of a business is extremely important. Money is needed when the business is started; it is needed to keep the business going; and it is needed when the business expands. Capable handling of finances will see that money is provided for those three purposes as it is needed.

THE SOURCE OF CAPITAL

There is only one original source of money to start a business. That source is savings. A person lays aside some money which he had foregone spending. He may put the money in a savings bank, intending at some time to reinvest it where it will yield a higher income than savings-bank interest. He may have in mind that when he has accumulated enough money, he will set up his own business. Or he may intend to purchase securities, such as stocks and bonds, when the time seems propitious and prices favorable.

Not always does the person who has saved money use it as he had planned. Emergencies requiring immediate cash may draw on or use up entirely the cash balance so painstakingly built up. Worse, he may have been persuaded to put his hard-earned savings into a poor proposition that sounded very attractive when presented by a smooth-tongued salesman. On the other hand, he may be fortunate enough to select a good way to invest his money.

There are sound propositions awaiting those who have money to invest, and plenty of money available for them, but the problem of the investor is to pick the good ones. The problem of the promoter is to persuade people with money to put it into his proposition. That many investors and promoters are successful

in attaining their objectives is indicated by the large amounts of capital invested in business. Over 1.1 million persons have invested in the American Telephone and Telegraph Company, more than in any other business, although a number of large corporations have over half a million stockholders. The original capital of a corporation is provided by the sale of stocks and bonds to people who have saved money.

At the other extreme are the small businesses, such as retail stores and service businesses, thousands of which are owned and operated by one or two persons. These small owners may be operating on a "shoestring," or they may have adequate resources. In any event, the money they started with was either their own savings or the savings of someone else. Ordinary bank loans are sources of temporary cash and generally should not be depended on for permanent capital.

INITIAL CORPORATE FINANCING

Whether stocks or bonds should be chosen as the original capital of a corporation depends on a number of considerations. First, probably, is the market—that is, which of the two is easier to sell at the time. There are times when investors prefer stocks and times when they prefer bonds.

Another consideration is the resulting relationship to the company of the purchasers of its securities. A stockholder, though an owner of the corporation, has no voice in the management, except a vote at the stockholders' meeting. In addition, the company is under no obligation to repurchase the stock of a stockholder. Furthermore, unless the charter provisions for the stock to be sold provide for a stated dividend, the corporation need not pay dividends if they are not earned. Even if they are earned, dividends need not be paid if the directors decide not to do so.

The judgment of the directors as to the declaration of dividends is final, and there is little that minority stockholders can do about it, although there have been a few instances in which the courts have ordered the payment of dividends where the directors were proposing to spend the large earnings in ways that would benefit neither the corporation nor the stockholders.

The advantage of selling stock on which dividends need not be declared regularly is that the funds of the company will not be

depleted by the payment of dividends when it is desirable to conserve the company's cash because of uncertain or unfavorable business conditions. On the other hand, the lack of assurance of regular dividends may make the sale of the stock difficult.

The issuance of stock bearing a stated dividend rate, as most preferred stocks do, and especially if the dividend is cumulative, as many preferred stocks are, calls for the regular payment of dividends, if earned, usually four times a year. Since such payments bear no relation to the irregular money requirements of business operations, they merely serve to complicate the task of providing enough money to take care of both requirements. With many preferred stocks, even when the dividend is cumulative, the dividend need not be paid if not earned, the amount of the unpaid dividends simply accruing from one period to the next. There have been cases where the accrued dividends on preferred stock have amounted to more than the par value of the stock itself.

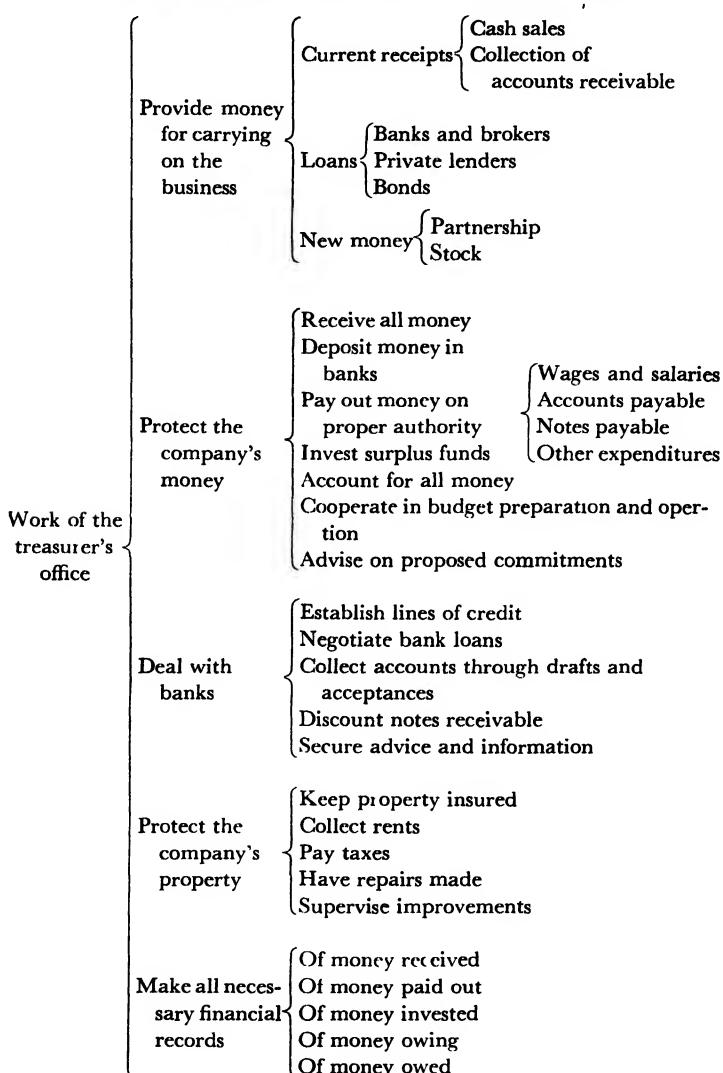
The disadvantages of issuing stock with a fixed dividend are augmented with bond issues. Although bonds do not have to be repaid for a number of years, the interest does. Default in the payment of interest, which customarily is due semiannually at a fixed rate, gives the bondholders certain stated rights of action against the corporation, depending on the terms of the indenture. If the bond is a collateral bond (so called because it is secured by the deposit of "collateral," that is, other stocks and bonds), or if it is a mortgage bond, the bondholders may be able to foreclose on the corporation's property that was mortgaged to provide security for the payment of principal and interest. Furthermore, the principal of the bond must be repaid at some definite time, when payment can be demanded under penalty of foreclosure.

A third consideration in determining how to provide capital for a corporation must take into account the regulations of the Securities and Exchange Commission, a Federal body authorized by Congress to regulate the issuance and trading of stocks and bonds. These regulations set forth certain requirements that must be rigidly complied with to avoid personal criminal liability.

FINANCING DAY-TO-DAY OPERATIONS

After a company has started business, its money requirements are continuous for goods, wages, and other expenditures of a go-

The Work of the Treasurer's Office



All the functions shown here are present in every concern—whether the concern is large or small.

ing concern. Everything a business does results in money coming in or going out and in property being bought or sold. The sales department is trying to sell all the goods it can, and the purchasing department is trying to buy what is needed when it is needed.

The treasurer must pay the bills incurred by the purchasing agent, must protect the materials that the purchasing agent has bought, and through the credit department must collect the money for the goods that the sales department has sold.

These numerous transactions require proper records and constant supervision, lest money be wasted and property dissipated. The accounting department handles most of the bookkeeping connected with some of these duties, and the cashier handles the cash, acting for the treasurer in doing so. But the responsibility rests with the treasurer, who is constantly on the watch to see that the company's property is conserved at all times.

Since many of the treasurer's duties usually are outlined in the bylaws of the company, it would be helpful to get a set of corporation bylaws and study them carefully.

CASH POSITION

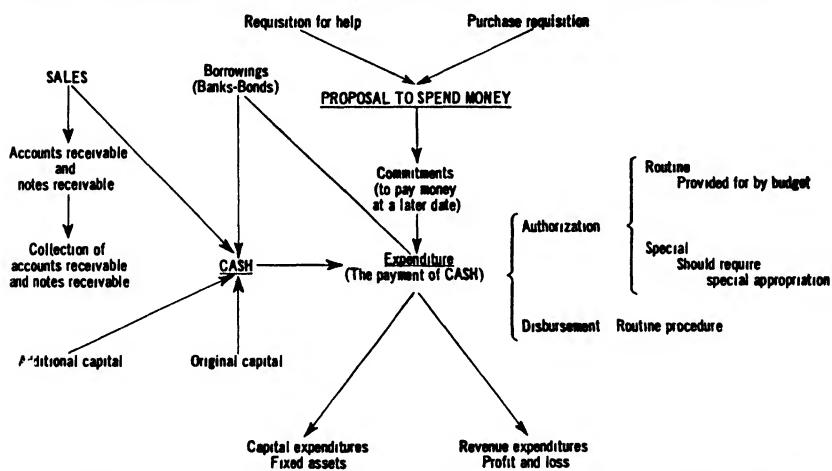
The treasurer or finance committee of a business is expected to see that enough money is available to pay every obligation when it is due. This money, except for initial capital and subsequent expansion, should come from cash sales and from the collection of accounts receivable that result from charge sales. The fact that in a recent year of unusually good business, nearly 40 per cent of the 9,162 failures reported by Dun & Bradstreet were evidenced by inability to avoid conditions that resulted in inadequate sales, shows how important it is to make enough sales so that money from sales will be coming in all the time. It is likewise important to keep expenditures within the cash received from sales and collections.

The *cash position* of a company is the amount of money on hand or in sight, in relation to the total of accounts payable and notes payable coming due during the same period. Careful managers reckon it frequently, in many cases every day.

Under the Uniform Sales Act, a concern that cannot pay its bills in the ordinary course of business, or as they become due, is said to be *insolvent*, a situation that may lead to bankruptcy if money is not quickly forthcoming. If insolvency continues for even a short time, the concern probably will go out of business, since its employees cannot be expected to work for nothing, and other concerns will not sell it goods for which they are not paid.

A treasurer, therefore, who can keep his cash position good—that is, have money for the requirements of the business and for emergencies as well—is said to be a good money manager.

Although there is no limit to the ways in which money may be spent, there is a definite limit to the sources of money—hence the necessity for control. Control of expenditures does not begin and end with the assurance that the expenditure was properly authorized. Rather, it goes back to the request for the authority—to the time when some department head asked for an additional clerk or someone wanted to buy a new gadget. To the treasurer, these are all the same: *proposals to spend money*. The time to control expenditures is when the proposal to spend money is made. Afterward is too late; the commitment has been made.



Every request to purchase something or to add an employee is a proposal to spend money.

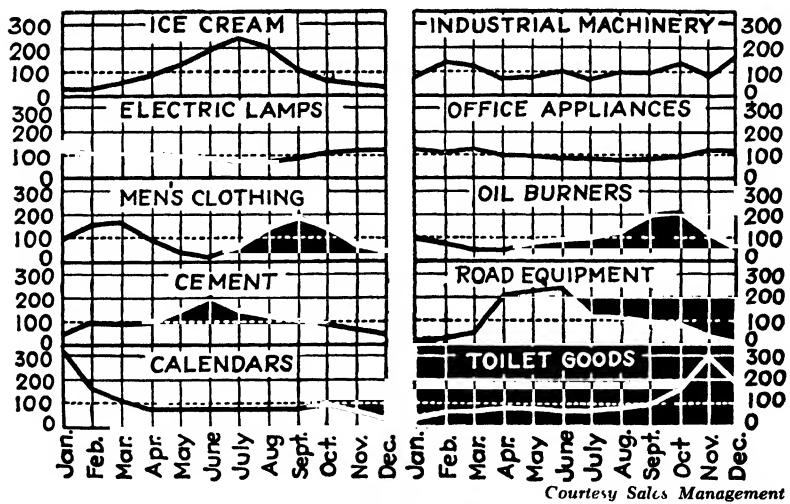
The main source of cash should always be from sales; all other sources should be regarded as temporary expedients to be resorted to only when income from sales is at the moment insufficient for immediate cash requirements, and not even then without thoughtful consideration of the consequences. Money borrowed must be repaid. Capital should not be wasted but conserved. Whenever a proposal to spend money is presented to the treasurer, his first question is, "Is it necessary?" followed by, "Can we spare the money?" and then, "If we make this commitment, what shall we have to do without?" That is why businesses have treasurers—to look after their money.

The chart on page 77 shows how a proposal to spend money is related to cash sales and other sources of cash and how its expenditure should be authorized and disbursed.

A few concerns have steady business throughout the year; that is, their sales are about the same month after month. If such concerns have prudent financial management, their cash receipts will take care of all normal requirements, and it seldom will be necessary to seek new capital.

FINANCING SEASONAL BUSINESSES

The business of many concerns is seasonal. A summer hotel, for instance, is a highly seasonal business, and unless it is located in a ski area or in good hunting territory, it does no business in the winter. The ice business is seasonal, with a lively demand in the hot season and little, if any, in the cold months. Coal and other fuels are in demand in the winter and not so much in the summer.



This chart, showing average sales of certain manufacturers by months, reveals their busy seasons.

Other concerns also may be seasonal, though not to the same extent. The men's clothing business formerly had two seasons, spring and fall; summer and winter were dull. Easter was the big season; it still is, but the custom of wearing lightweight suits in

summer has helped to create a third season in the clothing business.

The significance of seasonal business to the company treasurer is that during the dull season his firm may not be doing enough business to bring in much money. Yet the trained employees have to be carried through the dull season, and materials have to be purchased. Builders of apartment houses and office buildings have to buy materials and pay their help, sometimes as long as a year before a building is completed and rented.

BANK LOANS

To provide money during the dull season, the treasurer resorts to borrowing. He or the finance committee arranges with a bank to lend the company as much money as is likely to be needed. Suppose, for example, the treasurer believes that \$50,000 will be enough. A *line of credit* is arranged with the bank up to \$50,000; that is, the bank will lend the company up to that amount, usually in a number of smaller loans ranging from \$5,000 to \$15,000 each, as the money is required. The total of the loans made in this way might average \$35,000; at times, it will be down to \$5,000 or entirely cleared up; at other times, it may reach the limit of \$50,000. The treasurer borrows what is needed from time to time. Of course, the treasurer must submit complete financial details of the company, outline the company's plan of operation, and agree to provide the bank with up-to-date financial reports as requested. Furthermore, the bank must be kept informed of any adverse change in the company's condition.

Three other requirements the bank usually imposes. The first is that no loan shall ordinarily run for more than ninety days; that is, the treasurer is expected to pay every note within ninety days from its date, even though, as often happens, he pays it by giving another note. The second requirement is that once a year, at least, every note must be "cleaned up," so that the concern owes the bank nothing. To do this may require making a loan at another bank, but that is common business practice. Seldom is a business that borrows entirely cleaned up at all banks at the same time. The third requirement is that the treasurer shall leave 20 per cent of the amount of the loan on deposit in the bank as a daily balance.

WHY CASH DISCOUNTS SHOULD BE TAKEN

Bank loans often are made to permit a concern to take cash discounts on its purchase invoices. Suppose that a concern, by paying an invoice for \$3,000, can take 2 per cent cash discount on that invoice; this would amount to \$60. If \$3,000 is not readily available for that purpose, but will be within the next month, the treasurer borrows that amount from the bank for thirty days at the prevailing rate of interest. When the thirty days are up, the treasurer pays the note, and the company has a clear profit of the difference between the discount on the invoice and the interest paid to the bank. That the taking of cash discounts on all purchases is an important indication of good money management, as well as good business management, can be appreciated when it is realized that a cash discount of 2 per cent 10 days is the equivalent of 36 per cent a year.

Credit men always are impressed favorably by a consistent record of taking discounts. The accompanying table definitely answers any questions as to the desirability of taking cash discounts.

In the course of the year, a concern may secure several loans from its banks; the treasurer is usually the man who negotiates them and watches the due dates to see that each loan is repaid promptly. Either he or the members of the finance committee keep the firm on cordial relations with the bank.

DISCOUNTING CUSTOMERS' NOTES

In some lines of business and occasionally in all lines, a customer may pay his bill by giving his promissory note for thirty, sixty, or ninety days. Where goods are sold on the installment plan, notes may run for two, three, or even five years in the absence of statutory limitations.

When a customer buys something on the installment plan, such as a radio, television, automobile, washing machine, piano, refrigerator, food freezer, gas or electric range, house heating plant, furniture, or mechanical equipment, he makes a down payment and signs a *conditional sales contract*, agreeing, among other things, to pay a stated amount, or *installment* at stated times—weekly, monthly, quarterly, or semiannually, as agreed. As evidence of these promises of payments, he also signs promissory

notes; sometimes, he signs a note for each payment, the note becoming due when the payment is to be made; sometimes, he signs only one note, on the back of which each payment is recorded as made. Promissory notes given in connection with installment sales are often called *installment notes*.

Cash Discount Rates and Equivalent Annual Interest Rates

½%	10 days—net 30 days	= 9% per annum
1%	10 days—net 30 days	= 18% per annum
1½%	10 days—net 30 days	= 27% per annum
2%	30 days—net 4 months	= 8% per annum
2%	10 days—net 60 days	= 14% per annum
2%	30 days—net 60 days	= 24% per annum
2%	10 days—net 30 days	= 36% per annum
2%	40 days—net 60 days	= 36% per annum
2%	70 days—net 90 days	= 36% per annum
2%	10,30X days—net 60 days	= 36% per annum
2%	10,60X days—net 90 days	= 36% per annum
3%	10 days—net 4 months	= 10% per annum
3%	30 days—net 60 days	= 36% per annum
3%	10 days—net 30 days	= 54% per annum
4%	10 days—net 4 months	= 13% per annum
4%	10 days—net 60 days	= 29% per annum
5%	10 days—net 4 months	= 16% per annum
5%	10 days—net 60 days	= 36% per annum
5%	10 days—net 30 days	= 90% per annum
6%	10 days—net 4 months	= 20% per annum
6%	10 days—net 60 days	= 43% per annum
7%	10 days—net 4 months	= 23% per annum
8%	10 days—net 4 months	= 26% per annum

(Courtesy National Association of Credit Men)

Practice in handling installment collections varies. Some concerns handle their own collections. Others put them through their banks, on the theory that if the company waited until all such notes were due, it would have a tremendous investment tied up in *notes receivable*, as they are called. Instead, the treasurer may take such notes to the company's bank, or to a finance company

or acceptance banker, and discount them. The bank lends the amount of each note, less the interest for the period stated on the note. As the maturity date approaches, the bank notifies the maker of each note that his note is coming due and that he should be prepared to pay it on the due date.

The main advantage of collecting installment notes, or any other kind of promissory notes through a bank is that bank employees are experienced in the procedure of collecting notes and handle them as a daily routine. A second advantage is that the maker of a note may pay more attention to a notice from the bank. Of course, if the maker dishonors his note by refusing to pay it, the company is obliged to pay the bank. Some concerns, with whom the closing of an account receivable by a promissory note is not customary, do not discount notes thus received, but hold them until maturity, although they still may arrange to have notes collected through the bank as a routine procedure.

BORROWING ON ACCOUNTS RECEIVABLE OR ON INVENTORY

Companies with capable and experienced management can borrow from banks on their accounts receivable, sometimes up to as much as 85 per cent of the face value. These loans may be made on a *revolving credit* basis, whereby the company has the continuing use of money as needed, paying interest to the bank only for the number of days that the money is used. The arrangement is confidential between the company and the bank, and the company's customers are not notified. The company does not sign notes, but simply has a general agreement with the bank.

Banks will also advance loans on inventories of raw materials and finished goods under either a factor's lien or a field or public warehouse arrangement. The amount advanced would vary according to the type and quality of materials.

TERM LOANS

Although the bulk of commercial bank loans are for thirty, sixty, or ninety days, some banks will make *term loans* up to one, two, three, or even five years. To qualify, the concern must be in position to show a good record of profitable operation over a

period of years, together with reasonable expectancy of continued earnings sufficient to repay the loan as agreed. If a company requires more money than one bank alone can provide, the bank can arrange for other banks to participate. The purchase of virtually any type of income-producing machinery and equipment—new or used, standard or special—can be financed in this way over a period of years, and is of special value to an expanding business.

WHO HANDLES THE COMPANY FUNDS?

All money paid to a company passes through the hands of the treasurer or his assistants. A person whose duty it is to receive money is called a *cashier*. If money is received at several points, the treasurer may have a cashier at each place, as in some retail stores and in branch offices.

Incoming payments made in person are usually in currency—that is, bills and coins. Payments made by mail are usually in the form of checks and money orders. Although currency sometimes is received in the mail, it is not a safe way to send money. Some concerns encourage the payment of small amounts by postage stamps, although the United States Government does not approve of that practice.

PETTY CASH

Although all bills and most other items should be paid by company check, it is necessary occasionally to make small payments by cash, as well as to make change. For this purpose, a sum of money is entrusted to the cashier sufficient to take care of ordinary cash requirements; this money, which is kept in a cash drawer or a cashbox, is called the *petty cash fund* or, sometimes, the *imprest fund*. The cashier is authorized to make payments from this fund on presentation of a properly authorized order to pay, that is, a cash requisition, somewhat like a stock requisition for getting supplies. It has various names, such as *currency voucher*, *cash charge slip*, or *petty cash voucher*.

The cashier is responsible to the treasurer for the safety and correct use of the petty cash fund, and must show vouchers or memorandums for all payments made. When the petty cash fund runs low, a check is made out and cashed to replenish the fund.

Financial Routine

Includes the steps necessary to take to see that

1. Necessary records are made accurately and immediately.
2. No money is paid out:
 - a. Without proper authority for payment.
 - b. Without the proper account being charged.
3. All bills are paid, and all discounts taken.
4. No commitments are entered into:
 - a. Unless necessary.
 - b. Unless duly authorized.
5. Money received is:
 - a. Properly credited.
 - b. Carefully handled.
 - c. Promptly deposited.
6. Money owed is collected when due:
 - a. Progress on collections closely followed.
7. Company securities are protected.
8. Company property is kept up (maintenance, repairs).
9. Insurance policies cover risks adequately.
 - a. Not allowed to expire.
10. Taxes are paid when due, without default.

PAYING FOR GOODS PURCHASED

When a firm buys goods from others, it receives a bill or invoice for the goods purchased. This is checked to make sure that the goods have been received and are what was ordered. The prices, extensions, and footings are checked for accuracy, the cash discount is computed and noted, and the bill is approved for payment. Appropriate entries are made in the voucher register and the accounts payable ledger. The bill is either paid then and there or filed for later payment, depending on the due date or the custom of the company.

Some concerns pay each invoice as the discount date approaches; others pay their bills at stated times each month, arranging with their suppliers to take the discounts accordingly. For example, if a concern pays on the tenth of each month all invoices received since the twenty-fifth of the preceding month, and on the twenty-fifth all invoices received since the tenth, it will

deduct its cash discount of 2 per cent 10 days (or whatever the cash discount may be), even though bills dated from the twenty-fifth to the first are more than ten days old, and those since the first are less than ten days old.

All bills of the concern are paid by or through the treasurer or his assistants, by checks on the bank. The treasurer is responsible for seeing that no payment is made that has not been properly checked, verified, and approved, and that checks are carefully drawn and duly recorded. Many companies require checks to be signed by two officers, frequently the president and the treasurer. There should be safeguards to prevent the same bill from being paid more than once.

MAINTAINING BANK BALANCES

Care must be taken to see not only that the bank account is not overdrawn, but that other requirements also are met. The handling of checking accounts by banks involves considerable expense on the part of the bank. To recover or at least to offset part of this expense, the two methods commonly used are the minimum balance requirement and the measured service charge. At one time, the nearly universal method was to require the depositor either to maintain a minimum daily balance in his checking account or else to pay a nominal sum as a maintenance charge each month that the average daily balance was less than the required minimum. The amount of the minimum balance was governed to some extent by the activity of the account and the locality of the bank, ranging from \$50 in some places to \$50,000 or more in certain large New York banks. A few small banks did not require minimum balances.

One large bank asked a depositor who kept a daily balance of \$100,000 to increase it to \$200,000, stating that the volume of the company's deposits and checks drawn was so great that, although the daily balance showed \$100,000, the time lag between the deposit of checks and their collection reduced the actual available balance to only a few thousand dollars, making the account unprofitable to the bank.

Many banks are substituting for the minimum balance requirement a service charge based on the activity of the account. On a fixed charge of 35 to 50 cents a month, called an *activity charge*,

there is built a total service charge, for example, of perhaps 5 cents for each deposit and 5 cents for each check drawn, or perhaps just 10 cents for each check. Against this total is credited, say 10 cents for each \$100 of balance on deposits in the account. If the balance is high enough to offset the total of service charges, no activity charge is made for that month.

ESTIMATING CASH REQUIREMENTS

How does the treasurer know how much money is going to be required at any stated time, so that he may have the funds available? How does he determine the amounts needed for such routine expenditures as payroll, utility charges for light, heat, power, gas, telephone, and telegrams, for current purchases, and for nonroutine expenditures? The budget, described later, helps plan for these, but there are other devices that are often of more immediate help.

For Paying Employees. Consider, first the routine expenditures of a company. Payrolls have to be met every week. The treasurer knows that here is one item that requires money without fail. "Meeting the payroll" is one of the most important routines in any company. Payday comes around with a regularity that, however slow it may seem to an employee, is too fast for the person who has to meet it with money so that the company's employees will be paid in full without delay. Not until an individual has had the responsibility of meeting a payroll can he appreciate the reason why employers are reluctant to take on additional help. It is hard enough to meet the present payroll without adding to it.

From the standpoint of providing the money, the payroll may be divided into three parts: the regular salary list, the hourly wage list, and the piece-rate list. The regular salary list may be weekly, biweekly, or monthly, or all three, depending on the custom of the company or the requirements of local laws. In any case, it does not fluctuate much and should remain about the same, possibly declining in off-business periods and rising in periods of good business. Both movements may be anticipated. It is stable enough to provide a stated amount for cash requirements.

The hourly wage list will depend on the current degree of activity of the business, dropping severely in times of poor business

and soaring in times of good business. Enough time should be allowed between the end of the pay period and the payday for that period to compute the individual items and make up the payroll. The same is true of the piece-rate list, if there is one. The accounting system must be set up to tally, compute, and total all the items involved in the quickest possible time.

For Utility Services. The usual utility services—telephone, telegraph, light, power—are billed and paid monthly. Even where these fluctuate considerably, all four may be reckoned, from the meters in the case of light and power, from the number of trunk and extension lines and listed toll calls in the case of the telephone, and from the duplicate telegrams in the case of the telegraph service. Watching these items provides a control against their abuse or extravagant use.

For Current Purchases. Next are the invoices for current purchases. If the treasurer is consulted before proposed purchases are consummated, he will know in advance when the invoices will be due and can plan accordingly. Many companies forbid making any commitments without the treasurer's approval. A *commitment* is any undertaking that will require the payment of money at a later time and includes making purchases, hiring new employees, and incurring expense of any kind. Since the treasurer is the one who has to provide the cash to pay the bills, it is only reasonable that he should know ahead of time what payments he will have to meet.

For Nonroutine Expenditures. Unusual expenditures, such as the purchase of special equipment or items that may amount to more than a stated sum—\$50 in some companies and \$500 in others—may have to be approved by the finance committee or the executive committee, according to the corporation's custom, or by one of the partners, if a firm.

THE COMMITMENT SHEET

As commitments are made, they are entered on a commitment sheet, which shows the treasurer at all times how much money is to be paid out and when. In some companies, this sheet covers the whole year ahead and is always consulted before additional commitments are approved. Since budget approval often is considered

as sufficient warrant for expenditures, it is obvious that the commitment sheet will reflect budgeted items also and afford a comparison of expected expenditures with actual ones.

THE BUDGET

Carefully managed businesses usually are operated under a budget plan, by which an estimate of the expected income and expenditures of the company is drawn up in detail, showing where the money is coming from and where it will go. Some concerns prepare this budget in great detail so that each department head and branch manager knows exactly for which part of the income and expenditure of the company he will be responsible during the coming year. Each month, actual results are checked with the budget, which thus serves as a guide to the profitable operation of the business.

Not only should a budget include objectives; it should be backed up by carefully developed programs for attaining those objectives. It then becomes a daily chart by which the executive directs the efforts of his staff.

The budget is a statement of objectives in terms of specific figures. It sets goals to be attained in sales, expense, production, manufacturing, profits, and so on. These goals, however, do not serve their maximum purpose unless they are supported by carefully detailed plans and programs, which indicate courses of action that will make it possible to attain the figures presented in the budget.

—LAWRENCE A. APPLEY, *President*
American Management Association

(Courtesy American Management Association)

If the budget were used only to compare actual results with estimated figures, a large part of its value would not be realized. To get the greatest value from it, constant reference is necessary, not merely for the purpose of seeing if operations are kept within the budget figures, but also to follow progress and see that the plans covered in the budget are carried out.

The budget is not rigid, not a hard and fast rule. Rather is it a plan and a guide for carrying out a plan. If properly and carefully

prepared and administered, it should be possible at the beginning of any period to make up a balance sheet showing the condition as of the end of that period. Constant reference during the period makes it possible to know where the plan is falling down and to indicate points at which pressure must be applied.

The fact that an expense item is in the budget does not mean that that amount must be spent, nor does it mean that, if it was not spent, it is a good sign. The real question is, "If the amount had been spent, would the company have received the benefits expected when the item was put in the budget?"

Usually, the controller and the treasurer cooperate in making the budget, but the controller is responsible for administering it after it has been drawn up and approved. The best results under a

MASTER OPERATING BUDGET FOR JUNE
26 working days

<i>Income and Expense Accounts</i>	<i>Forecast (Expected)</i>	<i>Budget (Allowed)</i>	<i>Actual</i>	<i>Variation</i>
Sales at list price	\$150,000	\$160,000	\$160,000	0
Income	\$150,000	\$160,000	\$160,000	0
Manufacturing cost of goods sold	\$ 97,500	\$104,000	\$103,500	-\$ 500
General administration	6,800	7,120	7,300	+180
Finance	6,550	7,040	7,500	+460
Records	1,500	1,600	1,650	+50
Purchases	900	960	1,000	+40
Sales	24,564	25,480	24,800	-680
Receiving and delivering	1,950	2,080	2,200	+120
Expense	\$139,764	\$148,280	\$147,950	-\$ 330
Operating profit	\$ 10,236	\$ 11,720	\$ 12,050	+\$ 330
Manufacturing profit	650	362	1,280	+918
Other income	1,500	1,000	1,000	0
Profit for month	\$ 12,386	\$ 13,082	\$ 14,330	+\$ 1,248
Five preceding months	27,500	39,870	49,260	+9,390
Six months to date	39,886	52,952	63,590	+10,638

(From J. H. Williams, "The Flexible Budget," p. 264, published by McGraw Hill Book Company, 1934.)

budget plan are secured when all concerned—department heads, branch managers, salesmen—contribute their share toward making up the budget estimates. People are more interested in making their own estimates come true than in trying to carry out a plan in the making of which they have no share.

PROTECTING THE SECURITIES OF THE COMPANY

Protection of the company's property is another function of the treasurer. The securities owned by a company may be kept in the company's own vault, if it is burglarproof as well as fireproof, but probably the safest place to keep all securities is in the safe-deposit vaults of a bank, which are equipped with time locks, making impossible the opening of the vault before the time set. Steel boxes of various sizes may be rented for a sum ranging from \$5 a year for the smallest size to several hundred dollars for a large vault. The treasurer or any authorized assistant (called a *deputy*) may have access to the safe-deposit vaults at any time during the business day up to 3 or 4 p.m. Armed guards are in constant attendance; access is strictly limited and controlled; and papers may be examined in the privacy of locked booths.

Some banks even provide conference rooms adjacent to their safe-deposit vaults. No one but the treasurer or his deputies has access to the box or knows what is in it. The compartment in which the box is kept can be opened only by using two different keys at the same time, one kept by the bank and the other by the company treasurer. That is, two persons are required to open the compartment; neither person can open it alone without having both keys, something that the bank does not permit.

MANAGING THE REAL ESTATE OF THE COMPANY

Money and securities are not the only property of the company that the treasurer must protect. If the company owns real estate and buildings, the treasurer must see that the taxes are paid when they are due, the rents collected if there are tenants, repairs made where necessary, insurance taken out and renewed, and the making of improvements properly supervised.

Pay Taxes When Due. To carry out these responsibilities properly calls for setting up routines or systems that will mechanically bring details to the treasurer's attention. For example, at a stated

time each year, the company is billed for local taxes on its property. Tax bills as well as other bills have been lost in the mails or missent. The nonreceipt of a bill is no excuse for not paying it. If any bill is not received when expected, inquiry should be made—in the case of purchase invoices so that the bill may be paid in time to take the cash discount, and in the case of tax bills so that the company will not be liable to penalties for nonpayment of taxes when due.

See That Rents Are Collected. The collection of rents from tenants of company-owned real estate requires a good follow-up system for getting the money when due. Though most tenants pay promptly on the due date, there are usually some who delay for one reason or other. Every experienced credit manager knows that the longer a debt remains unpaid, the harder it is to collect. This fact seems particularly true in the case of rents. It is not sufficient to know that the tenant can be dispossessed for non-payment of rent. The purpose of renting property is not to eject tenants who do not pay their rent, but to get an income from the property. The landlord who gets around promptly on the first of the month will have fewer unpaid rents than the one who is lax in his collections.

Leasing Company-owned Property. The making of leases of company-owned property is another responsibility of the treasurer. If there is a lot of such property, an assistant treasurer or a real estate manager may give his full time to it, but the treasurer is still responsible. It is necessary to see that leases are drawn properly, that they protect the company's interests, and that, if the property is leased only until it is to be used for company purposes, adequate provision to that end is made in the leases. The renewal or termination of leases may involve notice within a stated time. If not attended to at that time, embarrassing complications may ensue. A proper routine will see that such dates are not overlooked.

Maintenance of the Property. The making of repairs is another responsibility of the treasurer as conservator of the company's property. When repairs are necessary, they should be made promptly, lest either or both of two happenings result. If the property used in company operations needs repair, there is the possibility of accidents to employees or damage to other property;

Facts about Fire Insurance

1. Fire insurance is comparatively inexpensive, since the loss may be slight, and the insurance company pays only for the actual damage.
2. The premium for a fire insurance policy would be higher for a wooden building than for a brick one. A brick building beside a railroad track might cost more to insure than the same building near a lake.
3. Some locations are so dangerous that the buildings cannot be insured. The owner of a powder mill probably would have difficulty in getting insurance on his building. He also might find it difficult to get his own life insured.
4. Insurance rates in the city are lower than in the country because the fire protection is better.
5. The more fireproof the building, the lower the rate of insurance that may be obtained.
6. The higher the building, the greater the risk, and the higher the rate.
7. A business that handles explosives or combustibles must pay a higher rate.
8. Lower rates may be obtained if the policy contains the 80 per cent coinsurance clause, under which the owner agrees to keep the property insured up to 80 per cent of its value. Otherwise, he can recover only the ratio that the amount of insurance carried bears to 80 per cent of the value of the property.
9. If you do not comply with the insurance rules, you may find that you cannot collect the insurance.
10. If alterations are made in an insured building, the insurance company should be notified. Also, in case the surrounding buildings are changed, the company should be notified.
11. In case a new member is admitted to a partnership, the policies should be changed accordingly.
12. If the property is sold, the insurance company should be asked to transfer the insurance.
13. Two or more persons can get insurance on the same property if they have an insurable interest.
14. The company always reserves the right to replace the damaged property instead of paying the face of the policy.
15. The insurance usually is void if the property is vacated without permission from the insurance company.

in addition, there is the lost time due to the inability to use the impaired property. If the property is occupied by a tenant, injuries resulting from failure to repair may lead to a damage suit. Incidentally, a properly drawn lease will refer specifically to repairs and place responsibility for them.

In many cases, adequate and timely maintenance of property

will avoid the necessity of extensive and expensive repairs. Systematic records of each piece of company property will help to prevent overlooking its possible depreciation.

INSURANCE MANAGEMENT

Adequate insurance is another responsibility of the treasurer. Companies with a large amount of complicated insurance are wise if they employ an insurance manager, who will report to the treasurer. There are so many different kinds of insurance, even on property, that for any individual to attempt to handle this problem on a part-time basis may result in an unanticipated expense or loss. The company may pay too much for the insurance protection it is receiving, or certain contingencies may not be insured against. Whether such a situation arises from ignorance or neglect, it is inexcusable. Insurance protection is not incidental to the operation of a business; it may be vital.

First comes a survey of the risks that the company faces; second, a survey of the possibility of reducing those risks by decreasing the fire or accident hazard, for instance. Third comes the analysis of the insurance available; fourth, the procuring of policies that cover the risks against which protection is desired. Last, but by no means least, is the renewal of insurance policies before their expiration leaves the company unprotected. It is not realized generally, for example, that all fire insurance policies take effect and expire at noon. What would be the position of an insured whose policy expired at noon and in the afternoon of that day a serious fire occurred? For that matter, when is noon?

The revised New York State fire insurance policy reads "noon, standard time, at the location of the property involved." Standard time seems clear enough until one reads the following explanation offered by an insurance manager who was interpreting the new policy before a group meeting of insurance managers from all parts of the United States under the auspices of the American Management Association: "Standard time is intended to mean standard time as fixed under the international formula and obviates the possibility of disputes over interpretation where daylight saving time or some other deviation from standard time exists." A fair question would be whether standard war time is standard time as above interpreted. Who knows?

Where many policies are carried, some attempt should be made to stagger their expiration dates, so that a large number will not come due at the same time, requiring the payment of a substantial premium for their renewal. Often, expirations may be arranged so that some policies expire every month. This emphasizes the necessity of some mechanical method of watching the expiration dates and providing for the renewal of the insurance.

QUESTIONS FOR REVIEW AND DISCUSSION

1. What is the original source of money for any business?
2. Contrast the problem of the investor with that of the promoter.
3. What are the comparative advantages and disadvantages of selling stocks and bonds to provide the initial capital of a corporation?
4. Comment on the financing of the day-to-day operations of a business.
5. Explain "cash position."
6. When is a business insolvent, according to the Uniform Sales Act?
7. Explain the attitude of the company treasurer toward purchase requisitions and requisitions for help. Is his attitude justifiable? Explain.
8. Where should the control of expenditures begin?
9. What is a commitment?
10. What are seasonal businesses?
11. What is the significance of seasonal business to the treasurer?
12. Why might a business need to borrow money from banks?
13. Explain "line of credit."
14. What three requirements does a bank usually impose on its borrowers?
15. What is the advantage of taking cash discounts?
16. Explain the discounting of customers' notes.
17. What are installment notes?
18. Explain "borrowing on accounts receivable."
19. What is inventory financing?
20. What is the function of a cashier?
21. Explain "petty cash."
22. How are bills for purchases paid?
23. Why is a minimum bank balance required, or a checking account service charge?
24. How does a treasurer estimate his company's cash requirements?

25. Why is meeting the payroll the biggest bugbear in business?
26. How may the costs of utility services be kept as low as possible?
27. How are nonroutine expenditures controlled?
28. What is the commitment sheet, and what is its purpose?
29. What is a budget, and what is its purpose?
30. Who is responsible for the preparation and administration of the budget?
31. How does the treasurer protect the company's property?
32. What does managing the company's real estate involve?
33. What is the treasurer's responsibility with respect to insurance?

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees, as explained at the end of Chapter III.

1. Ask the treasurers of two concerns in your community to explain their work in detail.
2. Ask the treasurer of the large concern whether he delegates much of his responsibility to his assistants. If he does, ask how he keeps in touch with the delegated work.
3. Ask a local banker how his bank handles a loan and what requirements it imposes on a borrower.
4. Make a list of the seasonal businesses in your community, and draw a chart showing what the owners of those seasonal businesses do in the off season.
5. If there is an investment house in your community, ask the manager to explain the difference between bonds and stocks.
6. Visit the nearest safe-deposit vaults, and ask the manager to show you through the vault and explain the service rendered to its patrons.
7. Ask the treasurer of some local concern to explain what he keeps in the company vault and why.

PROBLEMS

1. Banks lend money to business concerns, to individuals in business for themselves, and to private individuals not in business for themselves. Prepare a statement showing the following information for each of the three types of borrowers mentioned.
 - a. Reasons for borrowing.
 - b. Where is the money coming from to repay the loan?
 - c. Should the bank make the loan? Why or why not?

- d. If the bank refuses the loan, what should the borrower do, and why?
2. For payment in full within ten days after the date of an invoice, many concerns allow a cash discount of 2 per cent.
 - a. What is the purpose of the cash discount?
 - b. When a concern takes 2 per cent discount for paying its bill within ten days, what rate of interest would that be by the year?
 - c. A certain concern has an invoice for \$500, on which it wishes to take the cash discount of 2 per cent 10 days. To get the money, it must borrow from the bank at the going rate of interest. How much interest would the concern have to pay the bank for a 60-day loan of \$500, assuming the going rate to be 6 per cent? 5 per cent? 4 per cent? $4\frac{1}{2}$ per cent? $5\frac{1}{2}$ per cent?
 - d. How much cash discount would the concern get by paying the invoice within ten days?
 - e. Should the concern try to borrow the money? Why or why not?
3. Mr. Ames gave a promissory note to Mr. Dennison for \$600, payable in three months at 6 per cent. One month after date the note was paid by Ames, but was not returned to him as it should have been and as he should have insisted on. In some way, Mr. Dennison lost the note, and it appeared in the hands of an innocent purchaser for value, who presented the note on the due date. Could the purchaser collect from Ames? Why or why not? If he could, how much could he collect?
4. Mr. Barr gave his note to Mr. Lord on January 2, 1953, for \$200, payable on demand at 6 per cent interest. Barr paid the interest at the end of one year and again at the end of a second year, but nothing was paid on the principal. Mr. Lord brought suit at the end of the fifth year for collection. Barr refused payment, stating that the note was outlawed, as the statute of limitations was five years in his state. How much could Lord collect, if anything? Why or why not?
5. Mr. Bain has \$5,500 to invest in bonds or mortgages. He can purchase a 4 per cent mortgage at par, or 6 per cent bonds at 125. If the security is equally good in both cases, which should he buy? Why? What is the difference in the income?
6. In a concern that operates a small fleet of trucks, the question has arisen whether it would be better to rent space in a garage and have repairs done by outside mechanics or to acquire a small garage and have its own mechanics. If you were the treasurer of this company, what would you suggest? Why?

CHAPTER V

Organization of Physical Facilities

Physical facilities are concerned with the location of the business, with provision for comfortable and efficient working conditions, and with the selection, arrangement, and maintenance of machinery and equipment.

There are many successful businesses that have no apparent reason for their location other than the fact that it was convenient when the business was founded. If a man has a better product for which there is a demand, he can build up a satisfactory business through persistent and well-directed advertising and sales efforts, regardless of location. Few customers care where a product is made if it serves their purposes better than anything else, and if the price is right. Of course, hygienic values associated with the location and conditions under which a product is prepared may have a direct bearing on consumer acceptance and demand. Furthermore, although the location of the manufacturer may not interest the customers, there are some operating advantages and disadvantages that may affect economical manufacture and distribution of the product.

FACTORS IN LOCATING A BUSINESS

In determining the best location for any business, several factors may be considered. Not all of them are of equal importance, nor is it reasonable to expect that the advantages accruing to some can be realized fully by all. Probably, the best to hope for is a balancing of factors so that all the advantages possible are realized.

Four of the following six factors are concerned with the convenience of location. The sixth factor has nothing to do in-

trinsically with business operation, but it may have an external influence on taxes, restrictive regulations, and so on:

1. Market for the product
2. Transportation facilities
3. Availability of raw materials
4. Availability of labor
5. Cost of location
6. Political aspects of location

M A R K E T F O R T H E P R O D U C T

Consider the first five factors in order. First is nearness to customers. Only when customers must come to the business, as in a retail store, is this factor important. There, its importance is very great, as indicated by the preliminary surveys and analyses made by the large chain stores before locating a new unit; and even they have made mistakes in location. There are familiar instances of large empty buildings, formerly occupied by department stores or specialty stores that were unsuccessful because they were out of the beaten path, even though in some cases by only a block or two.

Even the side of the street on which a store is located may affect its trade. Three points to consider in connection with this factor are the movement of traffic, the sunny or shady side of the street, and the difficulty or ease of getting from one side to the other. There may be other points also. In any case, a technique for determining the best location for any kind of store has been developed and is available for all who wish to use it.

The tendency of wholesale houses in similar lines to group together is allied to the factor of nearness to customers, although not so directly as with retail stores. The idea here is to make it easy for buyers while in the wholesale district to inspect all offerings in the market. Sometimes, this section is called the leather district, the wool district, the dry-goods district, the garment district, or the like.

T R A N S P O R T A T I O N F A C I L I T I E S

Nearness to market has little bearing on the economical operation of a business, except as transportation costs, facilities, and time may be concerned. If the business requires continued trans-

portation, either of raw materials in or of finished products out, or of both, the convenience of transportation facilities has a real bearing on the economical conduct of the business. Since the development and flexibility of motor truck transportation have done much to free businesses from their former dependence on railroads, the problem of transportation facilities is not so difficult to solve as it once was. Air freight and express are also important factors, as well as air parcel post.

AVAILABILITY OF RAW MATERIALS

The importance of nearness to raw materials varies greatly with the nature of the business. Two subdivisions of this factor present themselves. One is the assurance of a constant and immediate supply, without dependence on transportation or weather conditions. The other is the fact that the cost of transporting bulky raw materials a long distance may add so much to the cost of production as to make the business unprofitable. It is much cheaper, for instance, to manufacture Portland cement at the place where the raw materials are than it would be to pay transportation charges on them. Other examples include the concentration of meat packing at Chicago, Kansas City, and Omaha so as to be near the source of supply of livestock and the transportation of petroleum by pipe line from oil wells to refineries.

AVAILABILITY OF LABOR

Labor supply means the number of skilled and unskilled persons who are available for the kinds of work to be done. This factor is often of more importance than all the other factors, especially when skilled labor is required. This is demonstrated by the jewelry center of Attleboro, Massachusetts, and the shoe manufacturing centers of Brockton and Lynn in the same state. That it is not all-important is seen in the development of St. Louis as a shoe manufacturing center. In the movement of New England textile mills to the South, the nearness to labor supply is not so important a factor as the cheapness of the labor supply there.

With retail store help, nearness to labor supply is a negligible factor in comparison with the convenience to customers. With office help, also, nearness to labor supply is not so important as are adequate and convenient transportation facilities for em-

ployees, in addition to pleasant working conditions and certain aesthetic values attached to a location in a desirable neighborhood. High-grade office workers will not work in low-grade neighborhoods. In the selection of a site for offices or office buildings, more consideration should be given to the likes and dislikes of office workers than to almost any other factor.

COST OF LOCATION

The fifth factor, attractive or less expensive location, is not so contradictory as may at first appear. Regardless of any other considerations, it must be admitted than any location that costs more than the business can afford to pay is too expensive. Sometimes, it is felt that the nature of a business requires it to have an expensive location. For every case where this is true, there probably can be found more cases where it is not true. Perhaps, the best conclusion would be that an expensive location is not so important as other factors, and that consequently it is better to be conservative than extravagant.

Sufficient time should be taken to find the right location. Sometimes, there will be two or more choices, whereupon the factor of expense will affect the decision. The movement of plants and offices from the congested city into open country almost always has resulted in attractiveness with less expense for rents, taxes, maintenance, and so on.

In most cases, a balancing of all factors is usually necessary to bring about the desired result. When objectives have been clearly defined, the steps to attain them are more clearly seen.

FACTORS IN THE CHOICE OF A BUILDING

The first factor in the choice of a building is its suitability to the nature, purposes, and requirements of the business. Heavy manufacturing calls for heavy construction; light manufacturing does not. A retail store needs the opportunity to display merchandise under favorable conditions. An office requires light and air and freedom from unnecessary noise. If the building is to be constructed to order, the services of a consulting management engineer should be retained even before the architect's preliminary sketches have been made to take advantage of the possibilities of appropriate construction, exposure, light and air, convenience of

customers and employees, movement of goods and people in the building, telephone, power, and lighting circuits, arrangement or layout of equipment, and in the case of both manufacturing and office departments, provision for "straight-line" flow of work to the extent that it is feasible and desirable in the particular business.

One Floor or Many? The comparative advantages and disadvantages of one-story versus multistory buildings should be weighed; of vertical travel between floors versus horizontal travel on the same floor, and of the kind of equipment needed for each; and of northern, eastern, southern, or western exposures, and their effect on the work and on the need for supplementary artificial lighting. There should be adequate power and lighting circuits and convenient location of outlets, and adequate and convenient heating and ventilating facilities and toilet and washroom facilities. The legal requirements for the last named are usually much lower than the economy of employees' time would indicate as reasonable and desirable. The general cost of maintenance and repair, and the adequacy and expense of janitor service and building superintendence also must be considered. The possible need and availability of additional space for expansion should not be overlooked.

ILLUMINATION AND LIGHTING FIXTURES

Lighting fixtures should be appropriate to the type of work that they are to illuminate. Adequate lighting of a display of merchandise, to make it look attractive, calls for special combinations of fixtures that would not be used anywhere else in the establishment. In factories, the lighting should be so planned as to give the worker adequate but not overillumination at the spot where he is working, with absence of glare and without too great contrast. Some contrast is desirable, but not too much. Satisfactory shop lighting is tied in, not only with the colors of the walls and floors, but also with the colors of the various parts of the machines. The objective in factory lighting is to enable the worker to see what he is doing without hesitation or strain. Two results are desired: continuous high production and lack of accidents. Satisfactory illumination goes a long way toward accomplishing both.

In office lighting, great strides have been made within the last few years, in three directions: first, in the way of better illumination; second, in better fixtures; and third, in lower cost of better lighting.

Lighting fixtures generally may be divided into three classes. Those throwing the light directly on the object are known as *direct lighting*. Those that illuminate the object by reflection from a surface, as a ceiling, are known as *indirect lighting*. And a combination of direct and indirect lighting variously is called *semidirect*, *semi-indirect*, and *direct-indirect*. Each type of fixture has its advantages and disadvantages.

Direct light casts a distinct heavy shadow; indirect light does not. Direct light, by casting all the light directly, requires less wattage and is less expensive. Indirect lighting requires much greater wattage to overcome the absorption of light by the reflecting surface and is correspondingly more expensive; so are the indirect lighting fixtures. From the standpoint of expense of illumination, direct lighting is cheaper. From the standpoint of effective illumination and better results from employees, indirect lighting may prove to be less expensive in the long run. That is, the cost of lighting should not be measured entirely by the cost of the fixtures or the current consumed.

Fluorescent Lighting. With the development of fluorescent lighting, a less expensive source of more intense light is available. The principle of fluorescent lighting is the glow produced by ultraviolet rays in a tube coated inside with fluorescent powder. The current cost of fluorescent light is one-half to one-third that of incandescent lighting of the same intensity, with one-fifth the heat. By channeling the light the full length of the ceiling, with channels at measured intervals, office lighting almost has ceased to be the problem it once was. The gentle light from fluorescent units is even softer than the reflected light from an indirect incandescent fixture. In factories, properly installed fluorescent fixtures do away with virtually all shadows.

Lighting Maintenance. Whatever lighting fixtures are used, it should be remembered that all kinds require some maintenance in addition to the replacement of bulbs or tubes. Indirect lighting systems, for instance, require weekly cleaning of the reflecting bowl to retain the initial efficiency. Bulbs and tubes may be re-

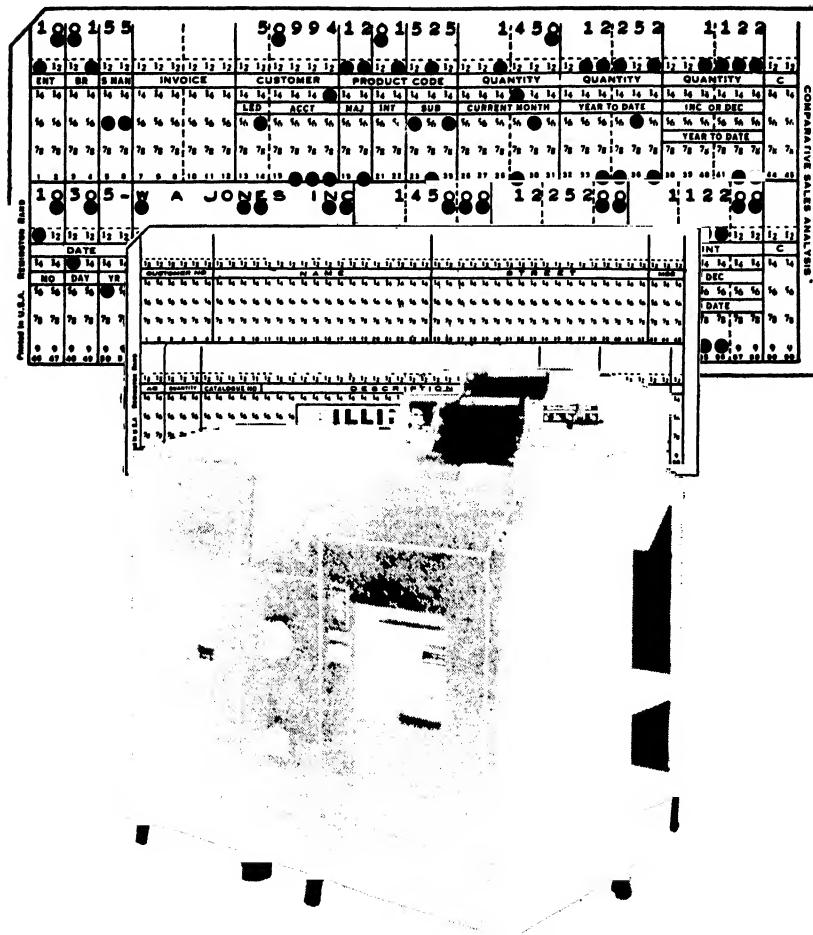
placed as they burn out or be scheduled for replacement just before the end of their rated life. If the schedule plan is followed, all the bulbs or tubes in a stated section would be replaced at the same time. Even though this might mean that some lamps still would burn, it is felt that the assurance of nonstoppage of work for lack of light or while replacement is being made more than offsets the slight amount of light still left in the replaced bulbs or tubes.

SELECTION OF MACHINES AND EQUIPMENT

The selection of machines and equipment for a business should be based on the same principle as the selection of the building—the suitability of the item to the purpose for which it is desired. These factors must be considered: saving in time or labor; securing greater accuracy; degree of skill required to operate the machine, and whether skilled operators are available; likelihood of excessive repairs, service, and maintenance; and probable amount of use. In manufacturing and shopwork, single-purpose and multipurpose machines often are available for the same operations. The choice, where the suitability of either has been determined, would depend on whether the multiple-purpose machine would be used enough to warrant the extra cost, and also whether its use would interrupt the continuous operation that is to be expected primarily.

Another point when considering the purchase of a machine is the actual benefit, if any, to be secured from it. If a special-purpose machine would not be used very often, it is questionable whether it should be purchased. Machines save time and labor; their output should be more accurate than hand operation, if accuracy is important. Unless the time or labor saved or the accuracy obtained offsets the cost, the purchase may be uneconomical.

Quicker Than Machines? An illustration from office work may make the point clearer. Very fast calculating machines are available for making all kinds of computations. On some of the automatic calculators, it is necessary only to set up the problem in the machine and turn or press a switch. The machine does the rest. Among the computations performed in offices are the checking of extensions, footings, and discounts on invoices, the pricing



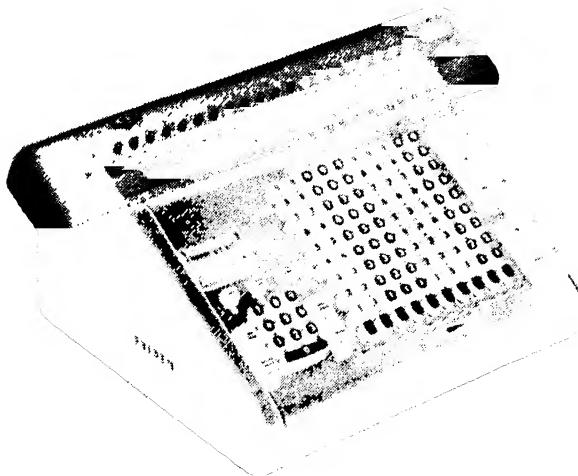
Courtesy Remington Rand Inc.

From a handful of punched cards, this machine tabulates and prints sales analyses, payrolls, and other lists in an incredibly short time.

of merchandise, and the figuring of payrolls. A calculating machine does this work with little effort and not much time.

It is possible, however, under certain conditions, to refer to calculation tables, which would be far more rapid than to make the same calculation on a machine, and with no question as to accuracy. A glance at the table gives the correct answer, even before the problem could be put in the machine. Such tables may be used to advantage where the variety of figures is limited

and constant and where there are complicated decimals or fractions to be dealt with.



A timesaving calculator.

Courtesy Friden Calculating Machine Company

REPLACEMENT AND MAINTENANCE OF EQUIPMENT

The question of when a machine should be replaced often arises and should be reasoned as follows. First, is the machine worn out, and is the work it does necessary? If so, it should probably be replaced. The economy of keeping a machine until it is worn out is doubtful.

Second, does an improved model do the work so much better and faster than the present machine that to replace it would be an economy, even though it is not worn out?

Third, has the point been reached at which the trade-in value declines abruptly? The best time to trade in typewriters, for example, is just before the end of the third year. After the fifth year, the trade-in value drops so quickly as to make it often more worth while to keep the machine and use it on rough work. Incidentally, it is well to bear in mind that the age of a machine is determined by its serial number, not by the year it was bought.

All machines require maintenance, if only cleaning and lubrication, to keep them in good running order. Many require adjustment; some require more repairs than others. If a machine has to be stopped frequently for repairs, the idle time of the operator and the lessened production will mount rapidly and

soon offset any price advantage in the original cost. All maintenance work should be scheduled to insure regular attention. In manufacturing plants and shops, a maintenance man or department has all responsibility for maintenance of equipment, to keep it in operating condition. Inspection will anticipate and prevent many a breakdown. In offices large enough to keep a mechanic occupied on office machines, it is often an economy to employ one. The overhauling of all machines can be scheduled and breakdowns prevented.

EQUIPMENT LAYOUT AND THE INDIVIDUAL WORKPLACE

Layout refers to the way that machinery and equipment are arranged to facilitate the performance of work. It is important because faulty layout may slow up the work and may require unnecessary movement of the work from one step to the next. The arrangement of equipment depends on the nature of the work to be done. In manufacturing, two plans may be followed. One may be called "consecutive" layout, where machines are arranged in the order of operations, the work coming off one machine being put directly on the next.

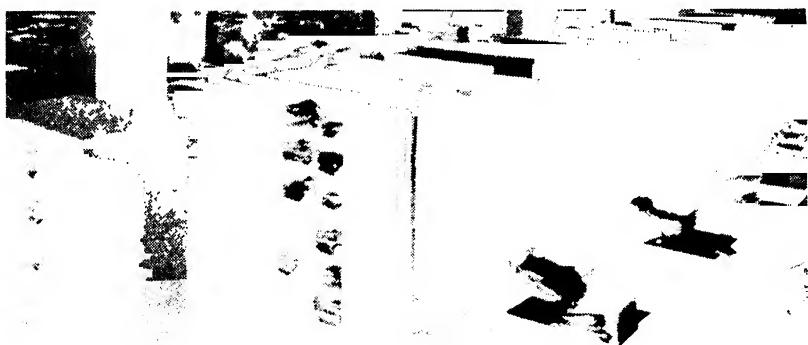
Another arrangement is to have all machines of the same kind together in a section. The choice may be to have all operations on a piece of work done by one group, or to have one group perform only one operation and a second group the next operation, and so on.

In either case, the amount of transportation of the material should be minimized both as to distance to be traveled and the means of transportation. Conveyers may be used to advantage in reducing the amount of trucking or hauling, and gravity should be taken advantage of wherever possible or feasible. Downhill movement of material requires no power.

In offices, desks should be arranged so that the work moves in a reasonably straight line, without unnecessary backtracking or crisscrossing. Where work passes through two or more departments, consideration should be given to locating such departments near each other.

In one office, for example, the purchasing department was located at one end of a 300-foot room and the voucher department

at the other end, requiring constant travel between the two departments. A rearrangement placed the two departments in adjoining spaces, so that papers could be transferred immediately without loss of time or effort. In the same way, the credit and bookkeeping departments should be located near each other, since the accounts receivable ledgers of the bookkeepers are in frequent use by the members of the credit department.



Courtesy Liquid Carbonic Corporation

Workplace arrangement is important. These specially designed tables hold one ledger and one workbasket. More space would be wasted.

The arrangement of the individual workplace, whether in office or shop, makes use of the same principles. Basically, the idea is the convenience of the worker as far as possible. No work at a desk, bench, or table, for example, should require frequent or continued stretching or reaching for materials or tools. Everything should be within arm's reach, a definite place being provided for every tool used, and each tool returned to its place immediately after use. If the work requires standing, the bench should be of a comfortable height. Consider the height of hospital beds, which makes it easy for nurses and doctors to attend a patient without unnecessary stooping or bending. Consider the height of the average kitchen sink or stove; no wonder some homemakers get round-shouldered.

If work can be performed seated, both workplace and seat should be of a comfortable height, adjusted to the individual worker, if possible. In repetitive work, full use should be made of both hands, with prepositioned tools to save time and energy otherwise spent in picking up and laying down tools. Careful

study of work operations by a trained motion analyst will result in faster accomplishment without increased fatigue. This applies to both office and shopwork.

QUESTIONS FOR REVIEW AND DISCUSSION

1. What is meant by the physical facilities of a business?
2. What are the six factors to be considered in locating a business?
3. Why should the market for a company's product be considered in locating a business?
4. Of what importance are transportation facilities in locating a business?
5. Is the availability of raw materials always important in locating a business? Why or why not?
6. How important is the availability of labor in locating a business?
7. Does location necessarily have any effect on costs? If so, what?
8. What is the first factor to consider in deciding on a business building?
9. Why should a consulting management engineer be retained when a building is to be constructed to order?
10. Contrast the advantages and disadvantages of a one-story versus a multistory building.
11. What other factors should be considered in deciding on a business building?
12. Comment on illumination and lighting fixtures with respect to effectiveness, efficiency, cost, and maintenance.
13. What factors enter into the selection of machinery and equipment?
14. On what does the choice between single-purpose and multipurpose machines depend?
15. Under what circumstances might the use of calculation tables be quicker than calculating machines?
16. When should the replacement of equipment be considered? Why?
17. How may machines and equipment be kept in good running order?
18. What is meant by layout of equipment?
19. How are machines and equipment arranged in manufacturing? Why?
20. How are machines and equipment arranged in offices? Why?
21. Why is the arrangement of each individual workplace important? What are the objectives?

22. What result would you expect from a study of work operations by a trained motion analyst?

TOPICS FOR RESEARCH

1. A question that arises now and then is the extent to which labor-saving devices throw employees out of work. See what you can find out about this, and write a thousand-word report on your findings. Restrict your comments to either office or factory.
2. Despite the increasing use of machinery in offices, the total number of office employees in the United States is around 8 million compared to less than 200,000 in 1880. How do you explain this phenomenon?
3. Adequate and uniform heating and ventilation of workrooms is not easy for a number of reasons. List as many ways of doing this as you can find, and comment briefly on the effectiveness of each.
4. In a large garage for live storage, what is the best method of parking the cars?

PROBLEMS

1. Among the periodicals published by a certain concern is a daily newspaper with two afternoon editions, one at two o'clock and the other at four. At these times, all the company's trucks are needed to carry mail and newspapers. There is one special route to newsstands that requires immediate delivery. Should the company purchase an extra truck for this route although there would be no use for it the rest of the time, or should the company arrange with a dispatch service to deliver this route? Give your reasons.
2. A daily newspaper in a medium-sized city is considering putting out a magazine section each week as a supplement to the Wednesday edition. They have no press that will do this kind of work, but there is a printer in a near-by city who can handle the supplement. The alternatives are (*a*) to prepare the material locally and send it to the printer, or (*b*) to buy a special press and do the work locally. If you were the newspaper publisher, which or what would you do? Why?
3. During a Christmas vacation, a student worked in a chain dry-goods store and had an opportunity to study the business and some of its problems. One problem was the requirement that every time a salesclerk received a \$5 bill or larger, she was expected to call the number of her counter aloud, whereupon the floorwalker

would come to her counter, get the bill, and take it to the cashier at the other end of the store to get the change. During this procedure, there was a great deal of time wasted, especially if the store was busy. Also, many times the floorwalker failed to hear the girls, resulting in added congestion and loss of time. What are the reasons for this procedure? What suggestions would you make for improving the situation? Give your reasons.

4. After a retail store has been in operation for a long time, the addition of new offices or departments would mean a rearrangement of the departments. Is it wise to relocate departments when they have been established for some time? Why or why not? If rearrangement is decided on, what suggestions would you make for the shift?
5. The kitchen of a combination restaurant and bakery in a small city is too small, but because of the construction of the building, it cannot be enlarged. To move out of the location would mean losing a profitable patronage. What can be done?

CHAPTER VI

Organization of Personnel

The most complicated problem of business is people. Technical processes may be mastered; strain and stress of materials may be correctly figured; plants and offices may be built to exacting specifications; and intricate machines devised for performing work with fine accuracy; but if the human element in business is disregarded, trouble is ahead. There is no formula that will work all the time and in every case. Human beings differ too much from each other. They cannot be standardized like inanimate objects. They are dynamic, not static. This applies whether dealing with competitors, associates, or employees. The one certain thing about people is their uncertainty.

Recognition of the difficulty should not excuse a business from attempting to solve the problem. The present chapter is therefore concerned with theories, techniques, procedures, and objectives to be accomplished with respect to the employees of a business.

THE BASIC PERSONNEL PROBLEM

The basic personnel problem is this: The employer has work to be done. The employee wants to receive for his work enough money to live according to the standard that he has established for himself. If the employer has to pay too much to get the work done, the increased costs will affect the price of the finished product to the point of diminishing orders from customers. If the employee cannot get the money that he thinks he is worth, he will leave the job or stay only long enough to find a job elsewhere.

The widespread ownership of automobiles and the greatly increased speed of communication facilities make it possible for a competent worker not only to keep in touch with the various

The Personnel Function

1. Interview and select applicants.
2. Provide preliminary instruction in company rules.
3. Introduce new employees.
4. Follow up new employees.
5. Watch absences, tardiness, personal conduct.
6. Prepare and distribute manual or handbook, job specifications, instruction sheets, notices to employees.
7. Supervise bulletin boards.
8. Handle transfers and promotions, releases and discharges.
9. Supervise vacation schedule.
10. Keep essential personnel records.

markets for his services, but also to change his residence quickly. The "immobility of labor," which economists once felt was an almost insuperable obstacle, may be much less a factor than it once was. The trade-unions and the Fair Labor Standards Act also have contributed their part. On the other hand, a worker may be reluctant to change present known advantages for uncertain future ones. He may be established in the community; he may have family responsibilities; he may own a home, and so on. Life is not altogether a struggle for existence. There are features besides a job that make it pleasant and worth while: friends, home, family, entertainment.

INCREASING THE EFFICIENCY OF THE WORKER

The middle ground between the two objectives of the employer and the employee is the point at which each meets the other. The employer wants production at low cost; the employee wants an adequate return from his effort. Both objectives may be attained by increasing the efficiency of the worker. This does not mean driving, as so many people imagine. It simply means making it possible for an employee to accomplish more work with less effort and in less time than it has been taking.

How It Is Done. This is not a new doctrine. As early as 1911, a prominent management engineer, Frank B. Gilbreth, stated that by proved methods workers' "outputs have been more than

tripled, production costs lowered, and wages increased simultaneously." Thirty-two years later, the War Manpower Commission published an instruction manual prepared by the Western Electric Company in 1940, based on a program set forth in 1919 as a result of practices during World War I. This program has been the basis of several excellent manuals. The director of the Training Within Industry program said in November, 1942, that in the short time that the TWI program had been operating, 7 men trained 100 men, who in turn trained 4,000 men, and these 4,000 had trained 325,000 others, affecting plants employing over 5,000,000 workers. Since this particular training takes only five two-hour sessions, it must have merit.

And yet the basic features are not new. Management engineers have known them for over a third of a century and are using them every day. They have been published in management society journals, discussed in meetings of management societies, and made available in book form to all who are interested enough to inquire. Several universities offer courses in this field that are open to everybody—men and women alike.

What Is Involved. There are six main factors involved in successful personnel organization and administration.

1. Analysis of the job
2. Selection and testing of applicants
3. Induction and training
4. Supervision
5. Providing an incentive
6. Cooperation between labor and management

Analysis of the job means finding out what the work is and determining the best methods of doing it. Applicants for employment are selected and tested to find the individuals best fitted for certain types of work. Induction introduces new employees to the organization and to their jobs. Training shows them the best methods of doing their work, as discovered by job analysis. Supervision guides and assists the workers to do their best and helps to overcome hindrances to effective work. Providing an incentive makes it worth while for the employees to put forth the effort necessary to get the desired results. Cooperation between labor and management helps to build morale, which results from a

clearer understanding of mutual problems and a concerted effort to help solve them.

ANALYSIS OF THE JOB

The term "job analysis" has long had two recognized meanings with correspondingly different objectives. One applies to the more or less superficial study of each job to determine what it covers and the qualifications required to do the work satisfactorily. The resulting information is summarized in a *job specification*, which is used in selecting applicants for employment. The objective is to make it possible for the interviewer to match more intelligently an applicant's qualifications with the requirements of the job.

This takes a lot of guesswork out of hiring and helps to eliminate labor turnover caused by misrepresentation or lack of knowledge of the nature of the work and of the conditions under which it has to be done. When help is scarce, applicants must be shown the desirability of working for a particular company. It is not unreasonable to expect that greater stress will be laid on the attractive features of the job than on the unattractive ones. If a new employee knows the drawbacks beforehand, however, he will not be so disappointed and inclined to throw up the job.

The term "position analysis" describes the preparation of the *occupational description*, as the job specification is now termed. With the wider use of scientific methods of determining fair standards of employee compensation, especially of salaried employees, there have resulted from position analyses a number of valuable by-products, which have become quite important in their own right, such as job classification, job standardization, and salary standardization.

Improving Performance. The second meaning of job analysis has as its purpose not the preparation of a job specification for employment purposes, but the improvement of the method of doing the work, a procedure often called motion study or, more correctly, *motion analysis*. This involves not so much describing the work as dissecting it. The first step in this kind of analysis is to determine whether the work is really necessary. If it can be eliminated, no more time need be spent on it. One test of essentiality is to ask what would happen if this particular work were discon-

tinued. Elimination of unnecessary work is the first technical step in any improvement program.

If the work is found to be necessary, the next step is to examine everything connected with the job, starting with the purpose of the work, the materials and equipment used, the conditions under which the work is done, and a minute scrutiny of the way it is

Personnel Control

- A. Personnel control is hiring and keeping the right kind of help at a cost that the business can afford to pay.
- B. The purpose of personnel control is to obtain continued high output of standard quality at a low labor cost per unit of output with just rewards to employees, under good working conditions.
- C. The factors to control, in the following order, are:
 1. The need of additional or replacement help
 2. Job specifications, through job analysis
 3. Sources of personnel supply
 4. Selection
 5. Placement and transfer
 6. Training
 7. Introducing the new employee to the organization
 8. Direction, supervision, discipline
 9. Remuneration of the employee
 10. Working conditions
 11. Incentives
 12. Personnel policies

done, often using motion analysis as a background. As a result of this detailed survey, several facts may be revealed: (1) the light may be inadequate or may come from the wrong direction; (2) the machine may be in poor condition or it may be obsolete; (3) the material may not come in proper shape to work on; (4) the tools may be dull, not appropriate, or even lacking; (5) the worker may make many unnecessary motions that not only take time but also tire him quickly; (6) the work may not be arranged to best advantage; (7) the workplace may be too high or too low; and (8) the seat, if any, may be too high, too low, not comfortable, or ill-adapted to the worker and the work.

From a study of this analysis, an almost entirely new job may be synthesized, with appropriate materials, equipment, and tools, with as nearly ideal working conditions as possible under the circumstances, and with a method that contains no waste motions, no unnecessary effort, and no strain, and utilizes both hands simultaneously wherever advantageous and possible. This process is called *standardization*, implying that everything concerned with the job is standardized, and that wherever this same work is to be done, the standards established should be set up and adhered to.

The Present Trend. Originally, this analysis and improvement work was made by specialists, who called themselves systematizers or efficiency engineers. Here and there, a concern had its own industrial engineers and methods men, but many installations were made by outsiders. Although this situation still exists to some extent, the present trend is toward letting the worker and his supervisor have some share in finding better ways of doing the work, instead of being shown how to do it by a hired specialist.

The new technique calls for arousing and stimulating the interest of the worker and his supervisor in improvement. The individual is not told or shown how to improve his work, but is shown by motion pictures and demonstrations how others do it. Obvious improvements in technique, as well as in equipment and arrangement of the workplace, are apparent in the pictures shown. The desired result is to get the individual to think of places in his work where improvements could be made and to suggest those improvements. Increasing interest is stimulated by before-and-after pictures and by carefully directed publicizing of the improvements and of the individuals responsible for them.

If improvement in performance leads to increased pay, as it should, the interest will accumulate. The desired reaction is: "If he can do that, so can I." The foregoing applies to present employees, not to new ones, who still have to be shown how to do the work. Incentive is discussed more at length later, but it is involved with the value and purpose of time study.

Time Study. The purpose of time study, as distinguished from motion analysis, is to determine the time required to perform each element in the operation, each operation in the job, and the

job itself, for two reasons. If a certain operation is done in the same way 100 times, the time taken for the 100 operations should be 100 times the time taken to do the operation once. Invariably, it will be found that, although the average of 100 performances is close to the time for one performance, many of the individual performances are out of line—some over, some under.

Assuming that the timing was done correctly, there must have been some other cause for the variations in time. With this clue, a search may be made to discover what those causes are, so that the reasons for the longer times may be eliminated and advantage taken of the reasons for the shorter times. In other words, any variation from the standard time is caused by some variation from the standard operation, provided, of course, that the conditions are standardized also. This is particularly helpful in teaching a new method to others. Variations in time indicate variations in method. Find where the variation occurs.

Given a standard time for doing any piece of work, it is possible to reckon how long it would take to do a stated number of pieces and thus to build up an operating schedule or provide a preview of costs.

The first reason for time study, then, is to provide a basis for comparing performances of the same job and to establish a standard time for doing the work.

Payment on Basis of Output. The second reason for time study is to make it possible to pay the worker on a production basis—that is, a basis of output. If a worker is paid 75 cents an hour for each hour put in, he is being paid for his time. But if he is paid \$1 an hour for a stated output per hour, with a bonus for each additional piece per hour, he is being paid for what he actually does, not simply for a stated amount of time put in. This furnishes a strong incentive to effort, provided the rates are set fairly to begin with and provided further that, once the rates are set, they will not be changed for any reason except a change in method.

From the standpoint of the individual worker, other factors may be present besides the simple one of more pay. He is not always convinced that the studies have been made fairly and correctly. He might believe that the amount of additional work is out of proportion to the amount of additional pay. In other words, does the worker contribute something for the extra pay? It is

a question of fair dealing on both sides. No strain, no gain.

Job analysis, therefore, is a vital part of the subject of personnel control. The changes caused by time and motion study that may result from job analysis are concerned also with the good will of the worker.

SELECTION AND TESTING OF APPLICANTS

The selection of the person best fitted to do the work involves finding the sources of desirable applicants, followed by the interviewing, testing, and choosing from those available the ones who most nearly have the required qualifications.

Sources of Applicants. Likely sources of applicants are the state employment services and private employment agencies. Since different agencies may handle different kinds and grades of help, some experimenting may be necessary until one is found that is able to supply the kind of help desired. Once discovered, that agency should be given the exclusive business for that grade of help. The use of several agencies is not satisfactory, since each agency approached, under such circumstances, will make speed in presenting personable candidates more important than quality.

Schools, colleges, and training agencies are sources for specific types of help, especially for younger, inexperienced applicants who have promotional possibilities.

Sometimes, friends or relatives of present employees are a good source. Financial houses, however, are careful not to hire relatives of present employees for fear of collusion. Other concerns not thus affected sometimes find this source helpful, even advantageous.

Former employees with satisfactory records are a valuable source on occasion, especially for temporary rush periods. If a woman has left her position to get married, she may welcome an opportunity to earn some extra money. Also, competent employees who left for other satisfactory reasons may be glad to return, if they can do so without losing face.

Newspaper help-wanted advertisements are not always effective. Responses are many in times of poor business, but not so many when business is good and employment full. But some applicants are reached who would not be found by any of the other sources.

MERRINEATHER, DIXON, & COMPANY
Application for Employment

Name Janet Louise Arnold Social Security No. 355-24-4887
Permanent Address 1618 Bernard Avenue, Jamestown Phone No. 7-2865
Date of Birth June 16, 1931 Are You a U. S. Citizen Yes No
Check Whether Single Married Separated Divorced Widowed
Number of Dependents: Children 0 Adult Relatives 0 Other 0
Do You: Own Home Rent Board Room Live with Relatives
How long at Present Address? six years Salary Desired \$50
Height 5' 4" Weight 110 Color Eyes brown Color Hair brown
Condition of Health. (check) Excellent Good Fair
Have you any Physical Defects? Sight none Hearing none Speech none
Other Physical Disabilities none
How much time have you lost through illness during the past two years? 5 days
Check highest grade completed: High School 1-2-3-4 College 1-2-3-4
Where did you attend High School? Jamestown, New York
Where did you attend College? Pensacola University, Syracuse, N.Y.
Attended from Sept., 1948 to June, 1952 Major History Degree B.A.
Other training Secretarial courses, summer, 1951
What are your hobbies? Little theater group, reading, games

(over)

A simple application blank gives the important facts.

Making a Selection. The selection of promising candidates from a group of applicants is not easy. The more care that is exercised in selection, however, the fewer failures will result. Certain factual features, such as sex, age, schooling, and previous employment, are readily ascertained and checked.

It is the intangibles that make choice difficult. Suppose that an

Record of Previous Employment

Name of most recent employer James Town Historical Society
 Street Address 318 Hamilton Street City and State Jamesstown, N.Y.
 Position Secretary, assistant to director Name of Superior Scott Bradford
 Employed from August, 1942 to present Starting salary \$45 Salary at end of emp \$48
 Reason for leaving Desire better job

Name of next employer Brighton Lodge, Yellowstone, Wyo.
 Street address _____ City and State Wyoming
 Position Waitress Name of Superior Frank Carlisle
 Employed from June, 1942 to Sept., 1942 Starting salary \$22 Salary at end of employment _____
 Reason for leaving Attending school (plus tips, board, and room)

Name of next employer Wyoming Girls' Camp
 Street address _____ City and State Lake Forest, N.Y.
 Position Counselor Name of Superior Annie Barnes
 Employed from Summer, 1942, 1945, 1949 Starting salary \$18 Salary at end of employment _____
 Reason for leaving Attending school (plus board and room)

Names of 3 personal references (not relatives)

Mr. Ross Sheword, Professor of History, Syracuse University
Miss Anna Johnson, U.S.C.A. Broker, Jamestown, New York
Mr. Frederick German, Advertising Manager, Allentown, Pennsylvania
 Other experience not shown above assisted in Dean's office during registration at Syracuse

What business machines can you operate? Typewriter, adding machine

Signature Janet Arnold

This is the reverse side of the application blank.

applicant has had three years of employment with a certain concern. What did he do there? How well did he do it? Was his work satisfactory? How did he get along with the other employees? Would his former employer re-employ him? If not, why not? Often a personal conference with the former employer will bring out points not otherwise ascertainable.

Testing Ability and Aptitudes. All the foregoing furnish a background against which to judge the likelihood of a candidate's making good in the work for which he is being considered. In addition, it is desirable to find out two other things: (1) through a medical examination, to learn if he has any disease or tendency to disease that might spread among other employees or might interfere with his own work sooner or later; (2) through tests, to determine his present level of knowledge, ability, and intelligence with respect to the work contemplated.

There should be no exceptions to the requirement of a medical examination of all new employees, before they start work. Whenever desirable, however, consideration may be given to whether the findings are such as to make it inadvisable to employ the applicant. An employer must keep in mind that if he exposes others to dangers that could have been avoided, he may be legally liable for resulting damages.

Inexperienced beginners might well be tested for aptitudes so that their training may be directed along the lines of the work for which the tests show they have an aptitude. Tests have been prepared and are available that indicate the foregoing features to some degree. Indeed, it might be said that it is easier to obtain satisfactory tests than it is to administer them; if tests are not administered properly and evaluated with discrimination, the results will not be reliable. No one should be allowed to give tests who has not had training and experience in testing. The conditions under which they are given also affect the results.

The Bureau of Employment Security of the United States Department of Labor provides a testing service that is made available to employers through the various state employment security division offices. In the field of office and clerical work, the National Business Entrance Tests have been developed and are administered by the Joint Committee of the National Office Management Association and the United Business Education Association. Carefully prepared production tests cover jobs requiring the well-defined skills of stenography, typing, bookkeeping, machine calculation, and general clerical work, including filing. The tests also cover general information and fundamentals.¹

¹ Information about the National Business Entrance Tests may be obtained from the Joint Committee on Tests, 132 West Chelten Avenue, Philadelphia 44, Pennsylvania.

Keep This Distinction Clear. In all testing programs, the purpose of the testing should be kept clearly in mind. *Aptitude testing* is important where no occupational ability is expected at the outset; such ability will be acquired through training and experience on the job. *Ability testing*, on the other hand, determines whether the applicant possesses the specific capacities, abilities, and skills required in the job for which he is being considered and, if so, to what extent. That is, aptitude tests indicate trainability for certain kinds of work in which the trainee is most likely to succeed; ability tests determine the present attainment of the applicant and his ability to do the work.

When the employment manager or interviewer is satisfied that an applicant's qualifications indicate his probable success in the work to be done, there are still two important steps: the introduction and the training of the new employee.

INDUCTION AND TRAINING

The procedure set up for introducing the new employee and orienting him in the company is called *induction*. Its importance cannot be overemphasized, since on the care and thoroughness with which it is carried out depends the new employee's happiness and effectiveness in his work. With some companies and in some positions, induction may comprise nothing more than showing the new employee where he is to work and making him acquainted with one or two near-by employees. With other companies, the induction program may take from three days to three weeks, so important is it considered.

Purposes of Induction. One of the purposes of the induction procedure is to give the new employee such information about the company and the requirements of and facilities provided for its employees as will enable him to take hold of his work with confidence in himself, in his supervisor and associates, and in the company. This information includes his working hours, his rate of pay, when he will be paid, absence and tardiness requirements, vacations, special facilities, and so on. Some companies print this detailed information, or part of it, in an employees' handbook. Others supplement it with personal or group talks by supervisors or by someone selected for the purpose by the personnel department.

Training Procedure. Next comes training in the details of the job, and the training should be thorough. The procedure may be in this order:

1. Nature of the work (explained in more detail than when hired)
2. Purpose of the work
3. Features of the machine and other equipment used
4. Steps in doing the work
5. Inspection of the finished job

The training supervisor need not spend any more time explaining the nature of the work than is necessary to be sure that the worker understands it. This does not mean that this explanation should be skimped, but it may call for nothing more than a review or outline to refresh the worker's memory. The explanation of the purpose of the work may well be combined with the first step, making sure that the worker understands both clearly. No work is so dull and uninteresting as that which seems to have no purpose to it.

Even though a new employee may be thoroughly familiar with the machine he is to operate, it is well for the training supervisor to assure himself of that fact, either by questioning, by demonstration, or by observation. Sometimes, later models have features not appearing on earlier ones. Often, a safety device will have been added. Two purposes of this step are to assure that there will be no accident as a result of unfamiliarity with a machine and that the machine itself will not be damaged because the worker is not familiar with it. It is possible to make sure of these points without offending the worker, through careful observation and friendly questioning, carefully pointing out new features without hurry.

Of Vital Importance. Too much care cannot be taken in teaching the work itself. It is not enough just to *tell* the new employee how to do it; frequently, he has to be shown. And the demonstration should be so clearly handled that the worker can easily follow each step. If written standard practice instructions are available, it is helpful for the employee to study them before attempting the work, as they explain in clear simple language the correct way of doing the work. If some of the steps are more difficult than

others, the supervisor should dwell on them, repeating them as many times as necessary. This is no time for hurry; the supervisor should do his work of training as though that were the only thing he had on his mind at the time. Many a worker is afraid that he will appear stupid if he does not understand immediately, frequently because in some previous experience an instructor or supervisor may have displayed impatience with him. One of the first things an instructor must learn is to have patience with a trainee who is earnestly trying to understand, and it makes no difference how old or how young the trainee may be. Some authorities put the entire burden on the instructor by making the following statement, which has some truth in it, if not all: "If the worker hasn't learned, the instructor hasn't taught."

The supervisor should not be satisfied until he is sure that the new employee understands what he is to do and how to do it. If the work is made up of a number of jobs, it might be well to teach only one at a time; when that is mastered, the next can be taken. In cases of this kind, written standard practice instructions are helpful, since they make it possible for the worker to review the directions as often as necessary. They are of great help to both trainer and trainee. They save time for the trainer, and they also make it possible for the trainee to learn his job more quickly and thoroughly. If the supervisor actually feels that his main job is to *help* the new worker, he should have no difficulty giving that help. For that matter, he should have the same attitude toward all the group that he supervises.

After the demonstration, the supervisor may ask the employee to try the work while he looks on. Several trials may be necessary before the supervisor is satisfied. When that time comes, the worker may proceed, with frequent observations by the supervisor to make sure that everything is all right. With practice, the new worker will gain proficiency, until eventually his output will approach the standard set for the work.

Let us review these steps in training:

1. Be sure that the new employee understands what you have in mind.
2. Show him carefully what you want done, using patience, going into detail, and explaining the significance and importance of each step.

3. Have him watch someone perform the work, and let him ask questions.
4. Review the instructions.
5. Now let him practice the work under direct supervision, slowly at first. This is the time to correct false moves with patient explanation. Let him continue to practice until he has mastered the correct method.
6. Review the instructions again.
7. Let him get more practice, gaining proficiency constantly, until his output approaches the standard set for that work.

SUPERVISION

The function of supervision has been described in Chapter III. Supervisors should be as carefully selected and trained for their jobs as the workers are for their jobs. There are right and wrong attitudes and techniques of supervision. The wrong ones can be expensive, and the right ones can save much time and money.

PROVIDING AN INCENTIVE

An incentive is a stimulus to action; it provides the spur that most people need to get them to put forth the effort necessary to accomplish an objective. Its value lies in the fact that no one ever does anything without an incentive. People generally will carry on as far as they think it worth their while and then stop, unless a further incentive appears. Money or the hope of a reward is a powerful incentive, but it is by no means the only one. Pride of accomplishment, the hope of praise or promotion, the satisfaction of working under pleasant conditions, and many other nonfinancial incentives are often effective where money alone is not. Nor is everyone equally responsive to the same incentive or to the same degree. This fact may explain why some incentive plans work at some times and not at others, or with some persons and not with others.

To select the incentive or combination of incentives that will be most effective requires study of all circumstances involved. If a financial incentive is chosen, such as a reward in the form of additional money payment, it is necessary, if the effort is to be sustained, that the reward be definitely tied up with the effort so as to leave no room for doubt that it is the result of the effort. Some authorities urge that the incentive payment be made sepa-

rately from the regular salary or wage payment, so that it can be identified as resulting from extra effort.

The Standard Task. A problem in establishing an incentive plan is the determination of the point at which the reward should become effective. This involves setting a *standard task* that comprises a certain amount of work to be done in a given time, usually stated as so many pieces an hour or so many units a day.

For example, if as a result of motion analyses and time studies, it is found that a fair day's work for an employee is 60 pieces an hour for an 8-hour day, or 480 units for an 8-hour day, that figure would be used as the standard task on which the basic salary or wage would be paid; that is, for a salary rate of \$30 a week, or 75 cents an hour (figuring 40 working hours to the week), the employee would be expected to produce 60 pieces an hour, 480 pieces a day, and 2,400 pieces a week. The standard or basic wage would be \$30 for a standard output of 2,400 pieces in a 40-hour week. That is at the rate of $1\frac{1}{4}$ cents a piece.

Suppose that worker A turned out 2,800 pieces during the 40 hours, a rate of 70 pieces an hour. On a piece-rate basis, he would receive the regular rate of $1\frac{1}{4}$ cents a piece, or \$35 for the week's work. Under this arrangement, a worker can earn as much as he can produce.

The importance of extreme care in setting the standard is evident. If it is set too low, it is too easily reached; if too high, too difficult to reach. A standard should not be too easy nor too difficult; it should be possible to attain, by using the standard method under standard conditions. It should be possible to surpass, but not by any great margin. With a standard thus set, it is possible to pay a base wage of 10 to 40 per cent more than without any standard, and at the same time provide for an additional payment of 5 to 40 per cent.

A Sliding Scale. Sometimes, the payment for the additional output at the regular piece rate is not a sufficient incentive to put forth the effort. When this is the case, the incentive may be provided by increasing the piece rate when the output reaches or passes a stated figure.

For example, if 60 pieces an hour is the standard task and $1\frac{1}{4}$ cents a piece the standard rate, the rate for each piece over 60 an hour could be set at $1\frac{1}{2}$ or $1\frac{3}{4}$ cents. This would result in an

added payment per hour of 15 to 17½ cents on an hourly output of 70 pieces, or \$6 to \$7 additional a week.

There are many incentive wage-payment plans, but they are all based on some combination of time and output, with bonuses or premiums figured in various ways. One plan, for instance, starts the bonus at two-thirds of the standard. Another stops all payment at 120 per cent of standard, on the theory that effort beyond that point would be too much strain and cause excessive fatigue, with a resultant slowing down. A steady pace always is preferred to spurts, although spurts are sometimes necessary during an unexpected rush of business.

Fatigue is a natural result of exertion; strain is a natural result of overexertion. The natural antidote for fatigue is rest, while the results of severe strain may not be overcome so readily. Efficient work methods should not cause strain or undue fatigue to an adequately prepared worker. If the work is likely to cause undue fatigue, adequate and frequent rest periods should be provided.

COOPERATION BETWEEN LABOR AND MANAGEMENT

Cooperation between labor and management received a strong impetus during World War II when the War Production Board in March, 1942, announced a drive for speeding up war production by building up the morale of the workers and stimulating greater and sustained effort on the part of all. The plan proposed the formation of a joint labor-management committee in each plant, half of the committee to be selected from the employees, and the other half from the management. Among the activities of the committee, one of the most important and fruitful was the encouragement of suggestions for improvements. These suggestions, thousands of which were received, were considered by the committees, and those accepted were acted on without delay. As the plan worked out, it was very successful.

When the labor-management plan was first proposed, there was a feeling on the part of management that the idea was for the joint committee to share in all management responsibilities—determining management policies, hours, wages, working conditions, and so on. On the part of labor, the unions wondered if the plan was an antilabor speed-up scheme. The committees, how-

ever, were specifically instructed to avoid matters concerning wages, hours, working conditions, management policies, and so forth. It is quite possible, nevertheless, that the close association of labor and management on joint committees may lead to a gradual extension of such discussions as each side finds that the other side has honest intentions. Since both management and labor have a vital interest in continued production, it is to the advantage of each to have the benefit of the mutual counsel resulting from close cooperation.

THREE LEVELS OF TWO-WAY COMMUNICATION

One grave problem confronting every company is that of establishing and keeping open two way channels between the management and the employees. The joint labor-management committees are a start in the right direction, but more is needed. It is necessary to provide some way by which the management may keep a more or less continuous flow to the employees of information about the problems and progress of the company, and it is equally imperative that there be continuous communication from the employees to the management. Only when both management and employees really understand each other's objectives and the problems to be met in attaining those objectives can either side expect and deserve the wholehearted cooperation of the other. Frankness on both sides is imperative. Halfhearted attempts are likely to result in the attitude of one businessman who said he knew advertising did not pay because he tried it once.

There are three levels at which the interchange of understanding may take place: (1) between top management and supervisors; (2) between top management and employees; and (3) between supervisors and employees. Suggestions for the first level include:

1. Daily personal contacts by each member of management with his immediate subordinates in management, answering questions or complaints immediately.
2. Fact-finding surveys of supervisors' opinions and attitudes, valuable in revealing important information to management, stimulating supervisory morale and making supervisors management-minded, and shaping a pattern for improved management policy and practice.

3. Conferences with supervisors, achieved through such devices as round-table conferences, open forums, panel discussion, topical outlines for discussion, dinner meetings, movies, special outside speakers, and periodic week-end conferences.
4. Supervisors' manuals and handbooks.

Suggestions for interchange between top management and employees include:

1. Personal visits to various departments
2. Talks to employees
3. Letters to employees' homes
4. Question-and-answer sessions
5. Informal meetings

Suggestions for interchange between supervisors and employees include day-to-day relationships, talks with individual employees, and group talks, which afford an easy and natural opportunity for the following:

1. Giving credit promptly where it is due.
2. Seeking out and settling problems before they reach the grievance stage.
3. Encouraging the subordinate to look to his superior for information, help, and advice.
4. Discussing a mistake before the facts surrounding it have become vague, or before it is assumed that an error has been excused or overlooked.
5. Explaining promptly any change in policy that affects the employee, discussing the "why" as well as the "how."
6. Voicing the friendly word of counsel or interest, and giving praise when due.
7. Giving periodic reviews of personal progress and problems.
8. Sounding out employees' opinions on certain business matters and reporting findings.

GIVE EMPLOYEES SPECIFIC INFORMATION

Employee understanding also can be developed through employee forums, plant tours, contests, courses, employee handbooks, folders or booklets on special subjects, posters and bulletins, movies and slide films, and exhibits.

Employees' attitudes are not static. They change, and it is important to be aware of what employees are thinking and what

they want to know. The experience of the National Industrial Council reveals that most employees want certain specific information about the following subjects:

1. Background and present organization of the company.
2. Products (or services) of the company, how and why they are made, and where they go.
3. Policies of the company, especially new policies, as they affect themselves and their fellow workers.
4. Reasons for changes in methods and information about new products (or services); they want this information in advance.
5. What is expected of them, and how they measure up to expectation.
6. How their jobs fit into the business, and their chances for advancement.
7. Outlook for the business, and the prospect for steady work.
8. Income of the company, and its profits and losses.
9. If layoffs are necessary at times, they want to know the reasons as far in advance as possible, and how they are affected.

QUESTIONS FOR REVIEW AND DISCUSSION

1. Why are people the most complicated problem of business?
2. What is the basic personnel problem?
3. What developments have affected the "immobility of labor"?
4. What factors may affect an individual employee's decision to leave his job or remain on it?
5. Name six factors involved in successful personnel administration, and comment briefly on each.
6. What two meanings has job analysis?
7. In what way does an analysis of a job contribute to the preparation of an occupational description?
8. How does job analysis help to improve the performance of work on a specific job?
9. Trace the development of improvement work.
10. Distinguish between time study and motion analysis as to objectives and techniques.
11. Why should there be variations in the times required to do a piece of work?
12. How does time study contribute to the payment of employees on the basis of output?
13. Why are not all employees convinced that time studies are for their benefit?

14. What is the purpose of careful selecting and of testing applicants for employment?
15. Name several sources of applicants for employment.
16. What is the purpose of an application blank?
17. What information would a prospective employer want from a former employer concerning an applicant for employment?
18. What is the difference between testing the ability of an applicant and testing his aptitudes?
19. Why is a medical examination of all employees desirable before they start work?
20. What does induction mean? Why is it important?
21. What is the purpose of training a new employee?
22. In what order should training steps be taken? Why?
23. Why is it desirable for the training supervisor to explain the purpose of the work to the new employee?
24. Comment on this statement: "It is not enough to tell the new employee how to do the work."
25. Why is repetition necessary in training an employee?
26. How do written standard practice instructions help in training a new employee?
27. How may a training supervisor check the trainee's understanding of his instructions?
28. Should supervisors be as carefully selected and trained as workers are? Why or why not?
29. What is an incentive? Are all incentives concerned with money? If not, name several, and comment briefly on each.
30. What is a standard task, and why is it important?
31. Why should extreme care be exercised in setting a standard task?
32. Could any work method that causes undue fatigue or strain be called efficient? Explain fully, giving a definition of efficiency.
33. What were some of the fears of both sides when cooperation between labor and management was first proposed? What seems to be the present result?
34. Name the three levels at which an interchange of communication between employees and management may take place? Give at least three examples of what can be done at each level.
35. On what nine subjects do employees want specific information from the management concerning the business?

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of a class to work in groups or committees, as explained at the end of Chapter III.

1. One of the problems facing gasoline station owners and managers is that the attendants often forget to put the cover back on the gas tank after it is filled. Find out from five filling station managers what steps they take to overcome this problem.
2. How can store managers stop the abuse that their employees make of the discounts allowed them by using this discount for the benefit of outsiders? Ask five store managers how they handle this problem.
3. A retail furniture merchant asks, "How can you keep salesmen from sitting around doing nothing when business is slow?" Ask five retail merchants what they do about this problem if they consider that it is a problem. Be sure to find out how important they think it is.
4. Intelligence and resourcefulness are important requirements for day and night clerks in a hotel that caters to transient trade. One hotel man wants to know what course of training should be followed to fit men for these positions. Ask the manager of a successful hotel how he trains his clerks. In making your report, state your opinion of his method, what you believe should be done, and why.

PROBLEMS

1. Some firms pay their employees by check, and others by cash. Still others deposit the amount of the wages or salary in the employee's bank account. What are the advantages and disadvantages of each method? Which would you prefer for yourself? Why?
2. The stores clerk in the cost department of a factory seems unable to make a success of his job. What would be a possible solution of this problem?
3. In one concern, the ledger clerk and the salesclerk have some disagreement between them and are always arguing. There are times when they forget their work and start an argument that attracts the attention of the other workers, whose work is thus interfered with. What will eliminate this difficulty? Give your reasons.
4. The president of an old-established concern realizes that his entire executive staff is showing signs of age. These men have been instrumental and valuable in building up the company. Now, because of age, they are becoming less efficient, but they cannot be dismissed ruthlessly and replaced by new men. What should the president do? Why?

- 5 In a medium-sized factory, one man has had charge of development work for many years. But business is changing rapidly and competition is increasing, and this man is aging and is not quite so apt in thinking up new ideas and plans. The firm can procure two new men with commendable engineering qualities, but is unwilling to dismiss the older man. What should be done? Why?
- 6 The two clerks in a community drugstore have too much idle time. During rushes, they have to work hard, but rushes are few and far between. The store manager wants to know how to keep them busy as much as possible. What would you suggest?
- 7 The cook in a summer hotel has held that position for a long time. His cooking reputation is excellent, and in addition he is a valuable handy man who can fix practically everything. Taking advantage of his position, he feeds the help poorly—the motive being laziness rather than a desire to save money for the owner. How can the owner, who feels that he needs this man, remedy the situation?
- 8 A community merchant advertises in the local paper for a boy to work Saturdays. Fourteen boys answer the advertisement. All are desirable candidates and eleven are sons of customers. The merchant does not want to promote hard feelings or ill will. How can he determine which boy to hire and at the same time keep the good will of the other boys and their families?
- 9 A vacancy has occurred in a retail furniture store. To promote one of the present employees to this position means not only that he would have to be trained for his new position, but that some one would have to be trained for his old position. Would it be wiser to hire and train a new employee for the vacancy without making a transfer? What would you do if you were the store manager? Give your reasons.
- 10 There are sixteen employees in a public utility office who post accounts at night. Each has a special function that requires a definite length of time and no one can leave until all the work has been completed and inspected. Thus, if one employee finishes before the others, he waits until all have finished and the accounts are balanced. This may mean several hours in which one or more employees have nothing to do, but cannot leave. What do you suggest? Give your reasons.
- 11 The drivers and helpers employed in the traffic department of a concern are under the direct supervision of a young man several years their junior, who, for several months before his promotion to supervisor, had worked alongside them. The young super-

visor finds the men difficult to control. If he should consult the officials of the concern, he is afraid that they might think they were mistaken in promoting him. What should he do? Give your reasons.

12. A department head insists on making arrangements for his shipments direct with the carriers instead of through the traffic department. Since the traffic department can secure better rates and better service, this procedure causes an unwarranted expense to the company. How can this department head be cured of his bad habit? Give your reasons.
13. The death of the manager of a chain food store left a vacancy. A new man was transferred from another store of the chain. The deceased man had been very popular with the workers. His successor has not cultivated the good will of the men. Several men cannot get along with him; one man was discharged. Would it be better to transfer the new manager, who is really trying to make good, or should the workers, though excellent, be allowed to leave the organization, as they express their intention of doing? Give your reasons.
14. If you had a skillful employee with whom you had a lot of difficulty and who was a bit radical, how would you turn him into one of the most helpful of your employees? Give your reasons.
15. The bookkeeper of a company is an old friend of the president. She was with the concern when it started, but now the concern has expanded so that her knowledge is too limited for the required records. Neither she nor the president realizes this fact. What should be done? Give your reasons.
16. The circulation carriers of a newspaper are paid weekly. At the end of each week, they go to the cashier's office and collect their pay in cash. This involves some extra work for the cashier, who wants the system changed so that the carriers will be paid once a month by check, and claims that the amounts are too small for the extra work involved in weekly payments. The circulation manager claims that the carriers do not like the idea of getting paid once a month. What are your suggestions? Give reasons.
17. A newsboy forgets one day to leave the paper for a customer who had been subscribing for several years. The customer is much excited because of this mistake and wants the boy fired, threatening to cancel his subscription. The carrier is a hard-working boy who does not make many mistakes and has been an employee for three years. What action should be taken? Give your reasons.

CHAPTER VII

Organization for Office Management

Office management is concerned with the direction and supervision of office work. *Office work* includes the recording of transactions and the results of transactions, writing and answering letters, filing papers, typewriting, telephoning, messenger work, duplicating, computing, and carrying on office systems. When it is realized that in the United States alone there are over 8 million people doing office work, compared with less than 200,000 hardly 75 years ago, it will be appreciated that not only is office work becoming more and more important, but so is the management of this work.

The great bulk of business today is conducted on a credit basis. That is, instead of the buyer's paying for his purchase at the time he makes it, he agrees to pay for it later at a time mutually agreed on. A record is made of the purchase or sale and of the time when payment is to be made. The seller writes down what he sold, to whom he sold it, the price, and the date when payment is to be made. The purchaser writes down what he has bought, from whom he bought it, the price, and the date when payment is to be made.

THE FOUNDATION OF OFFICE WORK

These simple records of purchases and sales are the foundation of all office activities. Probably, the most important records of a business are those of purchases and sales; and the place where these records are made and kept is the business office. In a large office, these records are kept by the accounting department, which

also records all moneys received, paid, owed, and owing—in other words, keeps the accounts. That department also handles the important function of recording, tabulating, and reporting the results of all transactions. Reports prepared by the accounting department show the past successes or failures and help to determine the future activities of the company.

In connection with the business done, there is always more or less correspondence—letters received and letters written. In large offices, several persons may do nothing but handle correspondence, that is, read incoming letters, dictate answers, take short-hand dictation, or transcribe on the typewriter from dictating machine records.

After letters are answered, they must be put where they can be located again easily and quickly when needed for reference. This necessitates care and system. This work is called *filing* and is carried on in the filing department, sometimes referred to as "the files."

After letters are written, they must be mailed. This handling of *outgoing mail*, as it is called, may take place in a mail department that also receives the *incoming mail*, opens it, and distributes it to the proper persons for handling.

If all these kinds of office work were done without any definite order or system, confusion would result. No one would know what he was to do, when he was to do it, or whether it had been done. There would be much duplication; many important tasks might be overlooked entirely. Some order or system is necessary.

SYSTEMS AND PROCEDURES

Office system is the term applied to the way that office work is organized. Each office has its system of bookkeeping, filing, making records, writing letters, and so on. In well-organized businesses, office system is made up of carefully laid-out routines or procedures, which are simply established ways of doing the work. There is a routine or procedure for every kind of office work, and all office work must go through the established routine or procedure; that is, every similar piece of work must go through the same steps in the same way.

A *routine*, or *procedure*, as it is sometimes called, is a series of steps in the performance of office work, each step in the series

being performed in the same order and in the same way every time. Since the main objective of a routine is the prompt dispatch of the work, efficient routines assure more uniform and expeditious accomplishment of work than is possible without them.

A DEPARTMENT AND ITS WORK

A *department* is a group of employees concerned with the same activity. The work of a department is made up largely of routines. In the credit department, for example, there is a routine for passing on orders, and a routine for getting credit information about customers and prospects. There are routines for filing the information after it has been obtained, for writing letters, for collecting money, and so on.

The best ways of doing all these things have been worked out and put in writing so that all work will be done the best way every time. These written instructions are called *standard practice instructions*.

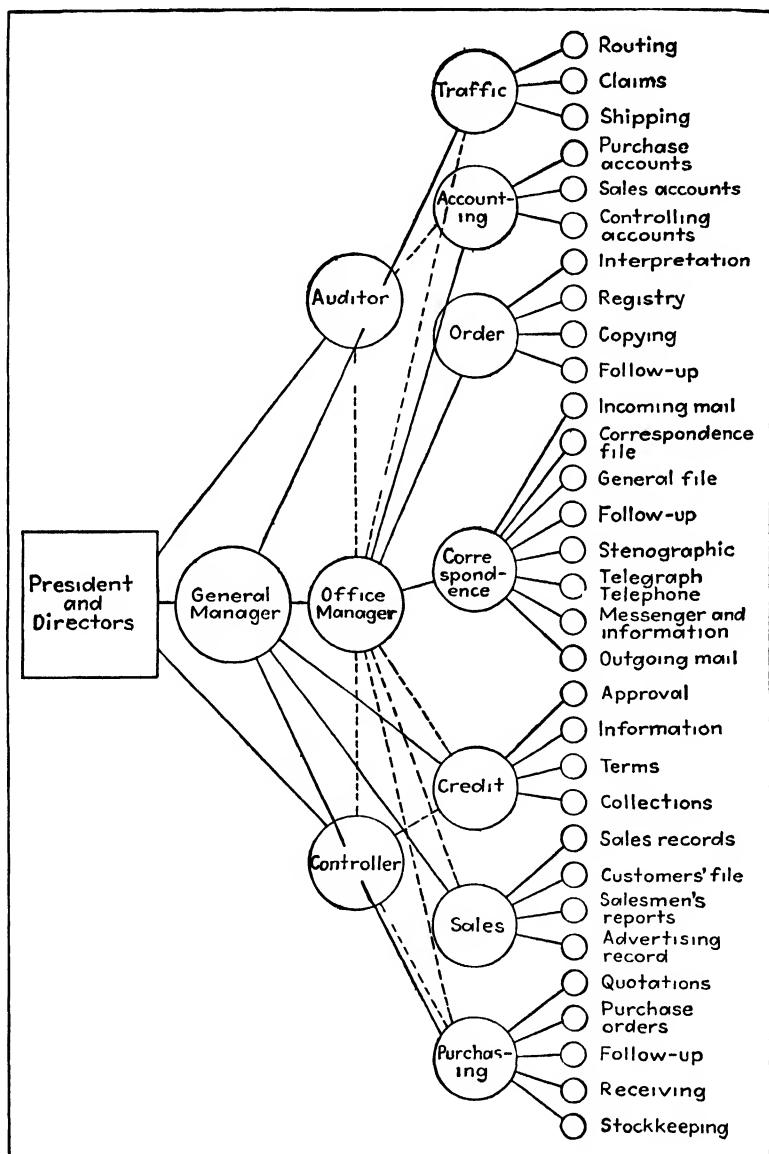
All the routines in any department make up the system of that department, and the routines of all departments make up the office system. *Office system*, then, is the orderly way in which the work of an office is performed through department routines or procedures.

DISTINCTION BETWEEN TECHNICAL AND SERVICE DEPARTMENTS

An interesting feature of office organization is the distinction between technical departments and service departments. Certain departments are concerned solely with technical work, such as purchasing, credits, accounting, and traffic; they are the *technical departments*. Other departments, such as telephone, mail, messenger, and files, are concerned with rendering service to all departments; that is why they are called *service departments*.

Each technical department head is responsible to the president or the general manager. The heads or supervisors of the service departments usually are responsible to an executive, called the *office service manager*, or simply the *office manager*. The office manager, in turn, reports to an officer of the company, sometimes

to the general manager, sometimes to a vice president, and so on. The accompanying organization chart shows the responsibilities of the office manager and the department heads to the president and directors of the firm



A clear organization chart shows who is responsible for each function

COMPETENT OFFICE MANAGEMENT IS NECESSARY

Modern business is making greater demands on office workers than ever before. It was not so long ago that office work was looked on as something that had to be tolerated. Today, with businesses operating at high speed, the well-managed office is recognized as an almost indispensable aid to the effective management and administration of a business.

Scientific methods are being applied to office work on a broad scale in an endeavor to establish standards of output, quality, and pay. Three outstanding management societies have made notable contributions as the result of research work done by their members in this field. Standardization of office work and of office methods has made rapid strides.

Offices have grown so rapidly in size with the increase in business and with the necessity for getting information quickly and for proper control through records, correspondence, and routines that office managers are confronted with two serious problems: how to keep down the rising expense of office work, and how to give new office workers the best training for their tasks.

MACHINES HELP TO REDUCE COSTS

The outstanding feature of attempts to solve the problem of lowering office costs has been the increasing use of machines in offices. This does not necessarily mean new types of machines, although many new ones have been developed. What it really means is that offices that formerly used few machines in their work are now using more; and offices that always have used machines have sought and are finding better ways of using the machines already available.

Typewriters have been electrified, as have so many other devices. Calculating and duplicating devices have been simplified and speeded up. Dictating and transcribing machines have been perfected and made easy to handle. Machines for accounting and recording are constantly being improved. Posting machines are used in savings banks throughout the country for entering deposits and withdrawals in passbooks; thus all necessary records are made in one operation.

A machine that eliminates certain bookkeeping operations altogether makes a miniature photograph of each sales invoice on a strip of film. A projector makes possible the examination of any desired invoice quickly. This type of machine has been used in banks for many years for photographing both sides of checks.

The result of the increasing use of office appliances has been to increase the quantity of work accomplished by each employee, so that fewer employees can handle the same amount of work that formerly required a larger force. Yet the total number of office workers is increasing!

THE FUNCTION OF OFFICE MANAGEMENT

Not all offices have an office manager by that title, although there is usually some person, an officer or department head or chief clerk, who is responsible for the coordination of the office work. Whatever the title, the function of office management is the same. Wherever the title of office manager is used in this chapter, it refers to the individual responsible for getting the office work done.

Office management is concerned with five factors: (1) office work, (2) office workers, (3) materials and equipment used, (4) conditions under which the work is done, and (5) methods by which it is done. Since office workers, materials and equipment, and working conditions have been discussed in previous chapters, we are concerned here largely with how the office manager directs and controls the performance of office work, together with the important responsibility of its improvement.

As in all management work, the first step is to determine the objective to be accomplished; then plan how to attain it. For example, consider the work of receiving, dispatching, and shipping orders. The objective is to get the goods shipped accurately and promptly. Promptly means without delay; accurately means without error.

ACCURATE WORK

Accuracy in filling orders depends first on the care with which the customer makes out his order. If he does not identify precisely

what he wants, whether by name, number, description, or use, the chances of filling his order correctly are much less than if such identification is given.

Another chance of error, due to the fault of the customer, occurs when the goods desired are both named and numbered, but incorrectly. For example, the correct name of a certain repair part might be sirup pump, while the correct part number might be 416.3. If the customer asks for a sirup pump and gives the number 428.9, which is the number for an ice-cream box, how is the order clerk to know what the customer really wants? In this particular case, it might be presumed that he wants a sirup pump, since he calls for it by name. But many part names are chosen by manufacturers for their own convenience and may have no connected meaning to the customer. How many automobile owners, for example, know what a spring perch nut is? How many know that there is such a thing on their cars, until it falls off or works loose? Presumably, the automobile mechanic knows.

The next time you visit a repair shop, ask the manager to let you see the parts catalogue. Note its size, the number of pages, the number of items, and the possibilities of mistakes. Then marvel at the comparative accuracy with which a large volume of orders is filled daily.

Errors by customers may be decreased by furnishing them with carefully compiled information that makes it easier for them to order correctly. In the case of a machine, a diagram with the names of the parts clearly shown is one way of encouraging accurate ordering; even then, if there are two or more models, only slightly dissimilar, there are possibilities of confusion. Henry Ford took considerable pride in the fact that, despite the changes in the Model T Ford during its period of manufacture from 1909 to 1925, most parts were interchangeable on all Model T Fords.

Many firms check the accuracy of customers' orders before filling them. Obvious errors are corrected, and doubtful items are referred to the customer for more specific details. However it is handled, it should never be forgotten that a business is known by the customers it keeps, and it cannot continue long by losing customers. Good will is easily lost and regained with difficulty.

CAREFUL WORK

Filling orders accurately also depends on the care and attention given by the clerks who handle them. Orders from customers may be received in several forms: by telephone, telegraph, letter, postal card, or personal visit. Regardless of the degree of haste involved, care should be taken to get the information correctly. It doesn't cost any more to do something right the first time than it does to do it wrong and have to do it over again. Handwriting should be clear and legible, figures should be carefully made, and quantities should be checked.

FASTER WORK

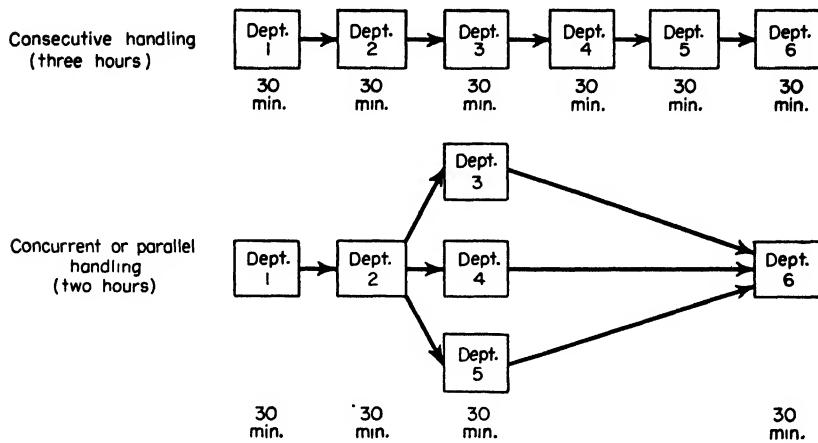
Many orders received are typed on purchase order blanks. Those that are not typed are in various styles of handwriting. Even typed order forms may vary in style and in the placement of information on the order blank. If the original orders were put through in the form received from customers, there would be inevitable delay due to inspecting the order for necessary information. To obviate this time-consuming process, many concerns retype their customers' orders on a special order form, so designed as to bring together in one place, as far as possible, all the information needed by each department that handles the order. Thus each department clerk has only one place on the order blank to look for information that concerns him.

CONCURRENT OR PARALLEL OPERATIONS

Another step taken to lessen delay in handling customers' orders is to make enough copies so that several departments can handle their parts at the same time, wherever possible. Suppose six departments had to handle an order, and that each handling averaged 30 minutes. The total average handling time would be 180 minutes, or three hours, not counting the time required for the order to pass from one department to the next, which often takes longer than the actual handling of the order. If it is possible for three of the departments to handle their part simultaneously, one hour may be saved by sending a copy to each of the three departments.

This is termed *concurrent* or *parallel handling* of work, which

is much quicker than *consecutive handling*, where each department has to wait until some other has finished its part. The accompanying chart shows this saving of time.



How concurrent or parallel handling saves time.

One of the tasks of the office manager, then, is to see where concurrent operations are possible to eliminate delays that might affect prompt filling of orders.

PUTTING THE ORDER THROUGH

The expression "putting the order through" refers to taking the first step of the routine that has been set up for handling orders, called the *order routine*. This is also called *dispatching*, since it starts the order on its way, just as a train dispatcher starts a train on its way. The word *dispatch* is a good one to use, since it connotes speed in handling.

BACK ORDERING FOR OUT-OF-STOCK ITEMS

Another way in which stock orders may be dispatched is by checking the stock on hand to see if there is enough to fill the order before putting it through. This involves keeping the order clerk notified when stock falls below a certain quantity, so that he will not put through an order for items not in stock. If the customer has ordered several items, one of which is not in stock, that item would not be put through with the others on his order, but would be put on a separate order, to be filled when the stock

has been replenished. This process is called *back ordering*, and the new order is called a *back order*.

The usual way of handling back orders, where the clerk does not know what is in stock, is for the whole order to be put through just as it is. When it reaches the stock clerk, and he finds that one or more items are out of stock, he marks these items BACK ORDER. Eventually, this gets back to the order clerk, who then proceeds to make out the back order. The possibilities of delay and oversight are greater in this way.

KEEPING ORDERS MOVING

Unless the office manager has provided for dispatching orders promptly, they may be held unnecessarily in a department or on a desk for several hours before being sent to the next department or desk. The same principle applies to the movement of all office work through the various office routines.

There are four ways of moving papers from one point to another. One is by the house mail service (described in Chapter VIII), where a messenger comes at certain times to leave and pick up papers. He picks up all papers and leaves them wherever indicated. The advantages of this plan are that it is regular, automatic, and frequent. No one has to think about calling a messenger.

The messenger plan may not be so quick as if the clerk who had just finished working on an order took it to the next place. But when a deskworker leaves his desk to act as a messenger, the performance of his deskwork stops until he gets back.

In the case of emergencies or special rush orders, a special messenger may be waiting for the papers. That is the quickest method and probably the most expensive.

A better way, where the volume of work warrants it, is to use a belt conveyer, on which a clerk deposits papers as soon as he has finished with them, and from which the next clerk takes them as they reach him. Devices may be used to sweep papers off the belt at the right station. Where the papers go to another floor, a mechanical carrier of the Lamson type can pick them up, carry them to the designated point, and deposit them there automatically.

Sometimes, it is possible to arrange desks so that papers may be

passed from one to the next. This is not always desirable, however.

The fourth way of moving work from one point to another is for the department waiting for it to send a messenger for it. For example, when the clerks in a filing department have nearly completed a pile of papers to be filed, the head file clerk may send one of the clerks around to other departments to pick up papers to be filed. This is not so economical or effective as having a house mail service handle it; but if there is no house mail service, a file clerk would perform this duty.

SCHEDULING FIRST THINGS FIRST

This discussion of handling customers' orders has included many of the points that concern the office manager in getting office work done efficiently. In every office, orders should get first attention for two reasons. First, the sooner an order is shipped, the sooner the payment may be expected. Second, by shipping an order as quickly as possible, the customer receives the service to which he is entitled. In many offices, customers' orders do get first attention. In some offices, unfortunately, they do not, usually because the relative values involved have not been analyzed and the work organized. But orders are not the only work that should be dispatched promptly. All work should be considered as to its relative importance and scheduled accordingly.

Where the volume of work is sufficiently large to keep a substantial office force busy, the office manager should look for possibilities of concurrent handling of work, diagrammed above. An example might be the opening and distribution of the morning mail (described in more detail in Chapter VIII). The dispatch feature involved is receiving the mail early enough to permit its being opened, read, sorted, and distributed to departments that are to handle it, all before the office opens. This involves planning, scheduling, and dispatching. The immediate distribution of mail to the various departments permits each to begin to dispatch its day's work at the same time.

Perhaps some of these things may seem so obvious as not to call for mention. It would be surprising to know in how many offices work cannot be started on the mail until the manager himself has seen and examined every piece of it! If he is out of town,

business stops. It was not so very long ago that the members of a firm doing a large national business gathered around a table and opened the mail themselves. It took the office manager of that firm a long time before he was able to persuade the partners to let someone else handle it.

OTHER OFFICE MANAGEMENT RESPONSIBILITIES

Establishing efficient office routines is the responsibility of the office manager. Designing forms to accomplish their purposes better also comes under the head of office management. Elimination of unnecessary steps in the routines and the resultant delays are his direct responsibility. So also are the preparation and the revision of standard practice instructions for doing the office work.

The office manager is responsible for the equipment and materials used in performing office work. Inspection and testing of such items should result in the preparation of standard specifications so that, once an item has been determined as the best for its purpose, no other need be considered, except as time brings improvements.

TIME CONTROLS AND QUALITY CONTROLS

Three controls that an office manager exercises over office work are time, quality, and cost controls. The quality controls consist of (1) setting standards of quality, (2) preparing standard practice instructions for doing the work in the standard way, (3) seeing that each clerk is taught the standard method of doing his work, (4) supervising the performance of the work, and (5) inspecting the result.

Time controls see that work is completed at a scheduled time. In determining when work should be completed, certain external factors must be considered. One is the time of arrival of the morning mail; another is the times of departure of mail trains, or the times that mail closes at the post office. Others are the times when trucks arrive and leave, the opening and closing times of markets, the arrival and departure of messengers, and so on.

Some of these times can be controlled by the office manager, others cannot. He has no control over the time when mail closes, but he can arrange for picking up the first morning mail earlier

than the postman delivers it. He cannot control the arrival and departure of expressmen, but he can use their scheduled times as the basis for scheduling the performance of certain office work.

How Does the Work Stand? In scheduling office work, not only must the factors just mentioned be considered, but others as well. The quantity of work to be done and the force available for doing it are important factors. One of the first things that a careful office manager does each morning is to ascertain the state of the work. He finds out from inquiry or from reports from departments how much work is to be done and how many persons are available for doing it. If workers are absent or if a group is understaffed, arrangements must be made for getting extra help or for transferring workers from one section to another temporarily.

The large mail-order houses set up their daily schedules on the basis of the number of orders received in the morning mail. This is ascertained by weighing the mail and multiplying the number of pounds by the number of orders per pound, as shown by previous experience. The schedule then is established so that the orders will be sent through in batches, with a time limit on each.

In smaller offices, time control may be maintained by stamping the time of arrival of items in a department. If desirable, the time of their leaving a department also may be stamped to fix responsibility for delay. Schedules should be possible to meet, however, and be planned on a factual basis.

COST CONTROLS

Control of the costs of office work include payroll, materials, and equipment. The inclusion of overhead charges is a question of opinion. As a matter of common sense, there is no point in holding an executive responsible for items that he himself cannot control. But to the extent that the office manager can control office overhead, he should be held responsible for it.

Since the highest cost of office work is the payroll, every office manager tries to keep it down. This does not imply keeping individual salaries down, so much as it does keeping individual output high. One girl may be overpaid at \$30 a week if she turns out 200 units of work when the standard is 300. Another girl doing the same kind of work may be underpaid at \$40 a week if she turns out 400 pieces in the standard time. The lower-sala-

ried girl has a unit cost of 15 cents, while the other has a unit cost of only 10 cents.

More careful selection of workers, more thorough training, more adequate supervision, provision of more suitable and adequate facilities, and the better planning and scheduling of work are factors that help to reduce the payroll cost of office work. The amount of necessary training on the job can be lessened by giving realistic pre-employment vocational training in schools and colleges, something that office managers are trying to get more of.

The cost of materials and supplies may be controlled by giving attention to standard specifications (described in Chapter XV), and by seeing that no items are delivered from stock except on a properly authorized requisition. No office equipment of any kind should be purchased without the approval of the office manager, who is in a better position than anyone else to determine the desirability, practicality, and suitability of the equipment proposed.

QUESTIONS FOR REVIEW AND DISCUSSION

1. What is the difference between office work and office management?
2. Why are both office work and office management becoming more and more important?
3. What kind of work is the foundation of all office activities?
4. Why is office system needed?
5. What are routines or procedures, and why are they desirable?
6. What is a department?
7. What is the difference between technical departments and service departments?
8. Why is competent office management necessary?
9. Why are scientific methods being applied to office work?
10. What two serious problems confront the office manager?
11. How do office machines help to reduce costs?
12. With what five factors is office management concerned?
13. What are the first two steps in all management work?
14. What is the object of receiving, dispatching, and filling orders?
15. On what two factors does accuracy in filling orders depend?
16. How may the customer be helped to write his orders accurately?
17. At what point in the order routine should the accuracy of the customer's order be checked?

18. Comment on the following statement as it applies to the care and attention given to orders by the clerks who handle them: "It doesn't cost any more to do something right the first time than it does to do it wrong and have to do it over again."
19. Why do many concerns type on their own forms orders received from customers?
20. What advantage is there in making several copies of a customer's order?
21. What is meant by concurrent or parallel operations, and why is it important, not only with respect to orders, but also with respect to other kinds of office work?
22. Explain the meaning of "putting the order through."
23. What is done when items ordered are out of stock?
24. Explain "back ordering."
25. In addition to the time required for dispatching orders through the necessary departments, what may cause delays in handling them?
26. Describe four ways of dispatching papers from one department or desk to another, contrasting their advantages and disadvantages.
27. Why should customers' orders receive first attention in every office?
28. What dispatch feature is involved in handling the morning mail?
29. Name five responsibilities of the office manager.
30. Name and comment on the three controls exercised by the office manager over office work.

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of the class to work in groups of five or six, dividing the work so that not more than one or two students will call on any one business concern for information. These groups may work together informally or may organize as committees, each with a chairman and a secretary, as suggested at the end of Chapter III.

1. Bring to class a list of ten businesses that have offices in your community. In each case, give the
 - (a) Name of the concern
 - (b) Kind of business engaged in
 - (c) Number of office workers employed, and
 - (d) Name of the office manager
2. Select any two concerns with an office force of ten or more workers,

and bring to class a report showing for each the information asked for in the first report and, in addition, the number of each kind of office worker in the office, for example:

4 stenographers	2 bookkeepers	2 clerks
1 typist	1 office boy	1 office manager

3. Select any two concerns, regardless of size, and bring to class a report showing for each the information asked for in the first report. In addition, select two of the office positions, and list all the duties performed by the persons in those positions.
4. Select any five concerns, regardless of size, and bring to class a report showing for each the information asked for in the first report. In addition, bring a list of all the office appliances used by each firm, for example:

3 typewriters	1 check writer
1 adding machine	2 telephones

PROBLEMS

1. A firm that employs 8 addressing typists found that by standardizing the work and using the block form of address they gained 25 per cent in efficiency. How much would the same improvement save a firm that employs 12 typists at \$1,500 each a year?
2. If the average distance from the desks to the drinking fountain is 100 feet, and it requires 2 minutes for a clerk to get a drink and return to his work, how much time will 2,000 clerks lose in a year of 300 working days if they make an average of 5 trips a day?
3. At an average of 75 cents an hour, how much money would be saved in 10 years by placing fountains 20 feet from each clerk?
4. If it costs \$100 to hire and instruct a clerk, what will be the yearly labor turnover expense in an office where 400 new clerks are hired every year to maintain a working force of 200? It is estimated that 20 per cent of the force is changed by death, accident, or some unavoidable cause and should not be charged to labor turnover expense.
5. A clerk opening mail found that by standardizing his work it was possible to handle 300 letters an hour instead of 80 under the former method. What is the percentage of improvement?
6. Two typists were taken from a noisy general office and placed in a quiet room. They increased their output 100 per cent. What saving in a year would be effected by such a change with a force of 200 typists at an average salary of \$30 a week?

7. To see how one company president looks at his office in relation to the business, first read the following statement through, then answer questions *a* to *f* at the end of the problem.

When the president or chief executive of any business looks at the office, he sees it from a different point of view than any man or woman under him. He sees it as an expense. And it is.

Whereas the organization rank and file are prone to look upon the office as the vital end of the business, the responsible executive knows that it is, practically speaking, a burden. Yet, paradoxically, it is also the focal point of profit for the business. That is its one redeeming excuse for existence, but it is so good an excuse that it would seem to be time to modernize our thinking about the office.

We have let the office run away with us. We have in many instances let it dominate our businesses. Looking at the office in its simplest terms, we see that actually it is only:

A place where the executive and subexecutive and clerical force may work for the production and sales departments and contact with them;

A place where the public may contact the executive and subexecutives;
A place where the records of the business may be concentrated for easy reference.

Its function is to serve as a center of control between the making of goods and the disposing of goods—or of service, if the business is of that type. But we seem to have lost that simple conception. We have made the office a business in itself, filled with people who have their own office work to do, and who spend so much of their time "working" that they have little time to do business.

So true is this that some of our practical business executives have come to look upon their offices with a feeling of impatience that they should be paying out so much for office overhead—that ever-increasing charge which has to be loaded on to the cost of goods and carried by the sales force.

If only the office staff could be in the factory producing goods, or out in the field selling them—how the showing of the business would improve!

Fine, high-grade salesmen in easy chairs, far removed from the customer, just supervising a field force of inferiors, and equal to any three or four of them. If men like these could only be out selling!

And skillful men and women who could turn out work in the plant of a quality that would scarcely need inspection. If only they could be actually producing!

But the practical business executive realizes that this is only a dream; that production must be directed, and sales must be supervised.

The author likes to look on the office as the servant of the factory and the sales force. Too often the office attitude is domineering and overlooks the fact that the only two profit-making elements are sales and production, without which there would be no need of an office. Did Mooney, the jockey, win the famous 1925 Derby or did Flying Ebony? Mooney helped Flying Ebony to get the most out of himself at the right time. Everything

was done for Flying Ebony before and during the race. If the office group would only do everything for the sales and production groups, and put their own work and desires second, more sales would be made at a lower cost, and more goods produced at a lower price.¹

- a. Why does the president of a company see his office from a different point of view from that of the office workers?
- b. What is the point of view of the office workers?
- c. Which point of view do you think is correct? Why?
- d. Mr. Walker says that the office is a place for what three things? Do you think he has left out something? If so, what?
- e. What does Mr. Walker mean when he says that the office is the servant of the factory and of the sales force? Do you agree with him? Why or why not?
- f. What comparison does Mr. Walker make between the office and a jockey? Do you think the comparison a good one? Why or why not?

¹ Walker, L. C., *The Office and Tomorrow's Business*, Appleton-Century-Crofts, New York, 1930.

CHAPTER VIII

Organization for Office Service

There are several services whose sole purpose is to help the other departments of a business do better work. Communication, for example, is necessary between individuals, between departments, and with those outside the company. The facilitation of such communication is office service, and it includes the telephone, reception room, messenger service—whether human or mechanical—and written communications.

FACILITATING THE WORK OF OTHERS

Incoming letters are received, opened, sorted, and distributed to those who are to handle them. Outgoing letters are folded, enclosed, stamped, and mailed. The mailing service definitely facilitates communication.

Letters have to be dictated and transcribed. Stenographic service is office service. Its function is to facilitate communication, and any means that expedites this activity and is available should be welcomed, whether it is machine dictation and transcription, telephone dictation, dictograph, or any other device.

A correspondence department, if centralized, also is rendering office service, since it facilitates communication by more adequately and promptly answering letters.

Many letters and papers have to be saved until wanted, then produced immediately. The filing service required is an invaluable office service, because it facilitates the safe keeping and prompt finding of desired papers as needed by the various departments of the business.

Stationery and forms and other office supplies are needed to carry on the work of the office. The procurement, storing, and disbursement of these items form an indispensable office service, facilitating the work of everyone in the office.

The provision of additional temporary help in emergencies is an office service that saves much time. Even the hiring and training of office employees may be considered as an office service, since it is not one of the purposes of a business, but is intended solely to facilitate the carrying on of the business by furnishing competent help to do the work.

Office maintenance provides an indispensable office service by keeping the office clean and attractive and the equipment in good working condition, and so on.

If a first-aid unit is maintained for the office, that is also an office service, because it facilitates the care of accidents or sudden illnesses that might become serious if not attended to promptly.

Finally, office service may include any and all miscellaneous services that are intended for the office employees and are not a part of the purposes of the business, such as an office library, office cafeteria, and office rest rooms. These are often called "employee services" because they facilitate the efforts of employees in their own behalf.

RESPONSIBILITY FOR OFFICE SERVICE

If the company has an office manager, he is responsible for all office services. He may have an administrative assistant, to whom he assigns this responsibility. Or the company may have an office service manager, who is responsible for these services. In concerns that have no office manager, the responsibility for the office services may be assigned to various department heads, to be handled in addition to their regular departmental duties. This arrangement, however, is ineffectual and wasteful of the department head's time. Sometimes, the purchasing agent is assigned this responsibility, but again the arrangement is not effective or economical, since the work of the purchasing agent is not related to the office services any more than is that of any other department head.

Wherever the title of office manager is used in this chapter, it refers to the person who is responsible for office services.

The Work of the Correspondence and Office Service Departments

Work of the correspondence and office service departments	Incoming mail	{ Opening Reading Sorting Distributing
	Stenographic work	{ Making assignment slips Keeping weekly work record Furnishing stenographic supplies Inspecting work Following up work
	Filing	{ Systems { Alphabetic Geographic Numeric Topic Correspondence requisitions Follow-up file Document filing Transferring correspondence
	Intraoffice communications	{ Messenger service Basket system Intraoffice notes
	Outgoing mail	{ Collecting Folding and enclosing Stamping Classifying Routing
	Telephone and telegraph service	{ Recording outgoing calls Recording incoming calls
	Information	{ Handling callers (Organizing messenger service

THE TELEPHONE AS AN OFFICE SERVICE

Probably one of the first office services to be established is the telephone for communication within the office as well as outside. This involves the right kind and size of switchboard, the required number of extensions, the type of instrument, the tone of the bells, and a competent operator.

The telephone company may be relied on to help to determine how much and what equipment is needed. A traffic survey will show how many external trunk lines to the telephone company's central exchange office are required, and how many internal extension lines to the various departments and desks of the subscriber are needed.

There also should be a definite understanding on the part of all employees as to the proper use of the telephone service. Since its primary service is quick communication concerning the business of the company, any abuse of it interferes with that purpose. Many concerns, therefore, restrict the use of company telephones for personal calls by and for employees. To avoid impairing office morale by absolute denial of the privilege, some companies permit the operator to receive and deliver messages for employees. This she usually can do with less loss of time or danger of delaying business calls, thereby eliminating all the needless telephone conversations so prevalent among young people.

Other companies require all personal telephone calls to be made and received from certain telephones or from a telephone booth. The telephone operator thus can keep track of those who are abusing the privilege.

Toll Calls. The control of toll calls made by anyone in the company, including executives, helps to reduce telephone expense. Certain members of an organization would rather telephone than write, even when time is not an important factor. Some concerns have the operator make a record of each long-distance call, showing the type of service used, the date, the person placing the call, the person and company called, the time of day, whether or not the call was completed on the first attempt, the number of minutes talked, and the cost of the call.

This record is sent to the person who made the call, for his signature, then to the department head for approval, and finally to the accounting department for distribution after checking and paying the telephone company's bill. If there is any question about whether the call was necessary or on company business, such a record provides a basis for control.

Uniform Practice. There should be uniform methods for calling and answering. Each company decides for itself the standard response to be made for incoming calls, and the telephone opera-

How Office Services May Facilitate the Work of Other Functions

Telephone Switchboard

1. Handles and dispatches incoming and outgoing calls.
2. Arranges and puts through long-distance and foreign calls.
3. Records and controls personal calls by officers and employees.
4. Maintains office directory and necessary telephone directories.
5. Keeps necessary records and reports.

Filing Service

1. Indexes, files, and locates all correspondence and business papers.
2. Operates central tickler or follow-up file.
3. Operates and supervises credit department file.
4. Supervises circulation of magazines to executives.
5. Keeps data and clipping files.
6. Keeps file of directories.
7. Keeps record of kind and quantity of filing work done.

Information Desk

1. Receives and directs all callers.
2. Keeps an in-and-out directory of executives.
3. May keep employees' time records.
4. Handles incoming and outgoing telegrams and cables.
5. Makes calls for repairmen and directs them.
6. Keeps necessary records and reports.

Stationery Supply Service

1. Stores stationery, printed forms, and miscellaneous supplies in an organized manner.
2. Disburses supplies on proper requisition.
3. Maintains adequate supplies on hand, and replenishes supplies as needed.
4. Keeps necessary stock records.

Addressing and Circularizing Service

1. Operates addressing machine.
2. Makes address plates.

3. Changes addresses.
4. Arranges for hand addressing.
5. Folds and collates circular material, and encloses in envelopes.

Stenographic Service

1. Takes and transcribes dictation.
2. Handles typing of all kinds.
3. Handles all copying and operates all duplicating machines.
4. Keeps necessary records of stenographic work done.

Purchasing Service

1. Purchases for all departments materials, equipment, stationery, and supplies on properly authorized requisition.
2. Is responsible for specifications, prices, delivery, and inspection of purchases.
3. Arranges for inspection, maintenance, repair, and replacement of all equipment in the office.
4. Keeps records necessary for operation of department.

Receiving and Shipping Services

1. Receives all goods delivered by vendors.
2. Delivers to storeroom goods received for stock.
3. Packs goods for shipment.
4. Delivers shipment to transportation company or post office.
5. Keeps receiving department and shipping department records.

Messenger Service

1. Distributes mail, orders, office memorandums, correspondence to be filed, and similar errand work within the building, between and within departments.
2. Performs messenger service outside the building as required.
3. Keeps the desks of executives and sometimes other employees supplied with sharpened pencils, paper clips, rubber bands, paper, and similar supplies.
4. Cleans inkwells, and keeps them filled, and sharpens pencils.
5. Keeps necessary records and reports.

Mail Service

1. Calls for incoming mail at the post office.
2. Opens, reads, sorts, and delivers incoming mail to various departments.
3. Collects outgoing mail from all departments.
4. Sorts mail according to class.
5. Folds, encloses, seals, weighs, and stamps mail.
6. Takes mail to post office, some to mail train.
7. Purchases postage stamps, and maintains required supply.
8. Keeps necessary records and reports.

Office Maintenance Service

1. Arranges for and oversees all cleaning and janitor and porter work.
2. Maintains office lighting fixtures and window equipment.
3. Maintains office heating and ventilating equipment.
4. Reports needed repairs to purchasing agent.

tor should use that response. The announcement of the name of the company may be sufficient to indicate to the person calling that he has the right number. In all cases, care should be taken to pronounce the name clearly.

In like manner, the method of asking the name and business of the person who is calling should be standardized and taught to all who answer the telephone. "May I tell him who is calling?" is more likely to get a cooperative response than "Who's calling?"

Trained substitutes should be provided to replace the operator during the lunch hour and at other times when she is not at the switchboard.

A competent and well-trained telephone operator also will be able to standardize the use of the service throughout the organization and to control its undesirable use. Telephone communications with customers and others should be standardized as to methods of conversation, even to the extent of using certain standard phrases to fit occasions that are many times repeated in telephoning.

To find a competent telephone operator is not easy. If it is possible to employ a girl who has been trained by the telephone

company, that is probably the most satisfactory source. If not, care should be taken to get someone who has a pleasing voice, a pleasant disposition, a will to serve, and a capacity for work. With proper support from the office manager, such an operator should be a real help in office communication.



Courtesy American Telephone & Telegraph Company

Thorough training and supervision help these central office operators to give prompt and accurate service.

INTRAOFFICE COMMUNICATION SYSTEMS

For intraoffice telephone conversations, some concerns use a *private automatic switchboard*. If the internal traffic is heavy, the PAX, as it is called, relieves the regular switchboard of a consider-

able load, since the employee who makes the call dials the number of the person or department desired. Since the ringing is automatic, everyone should be instructed not to let the telephone ring more than three or four times before answering. The person calling can control this by hanging up the receiver if his call is not answered by the third ring. This rule encourages others near by to answer the telephone of a person who is not at his desk. With the PAX, a directory of internal telephone users is necessary. This



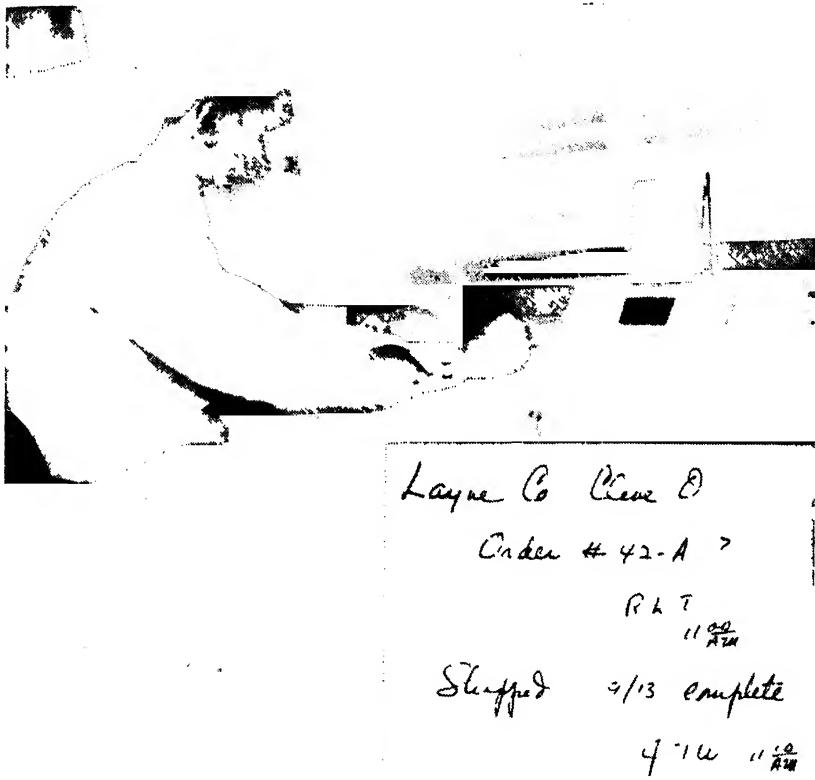
Courtesy Shaw-Walker Company

Over the telephone, one's voice personality is almost as important as the message. The voice with a smile wins.

may be printed on a card if it is not too long, or in a booklet if necessary. To be of value, it should be kept up to date. This is part of the responsibility of the office manager, working with the telephone operator.

The Dictograph. Three other methods of intraoffice communication are worthy of mention. Typical of one method is the Dictograph, which has microphones encased in small cabinets called "stations." There is one station for each person who is to use the system. The box rests on the desk and permits the user to speak in a natural tone of voice without holding a receiver to the ear or a transmitter to the mouth, unless desired.

The TelAutograph. A second method of intraoffice communication is the TelAutograph, which means "transmitting one's own writing." There are occasions when it is desirable to get information without using the telephone, or without divulging the fact



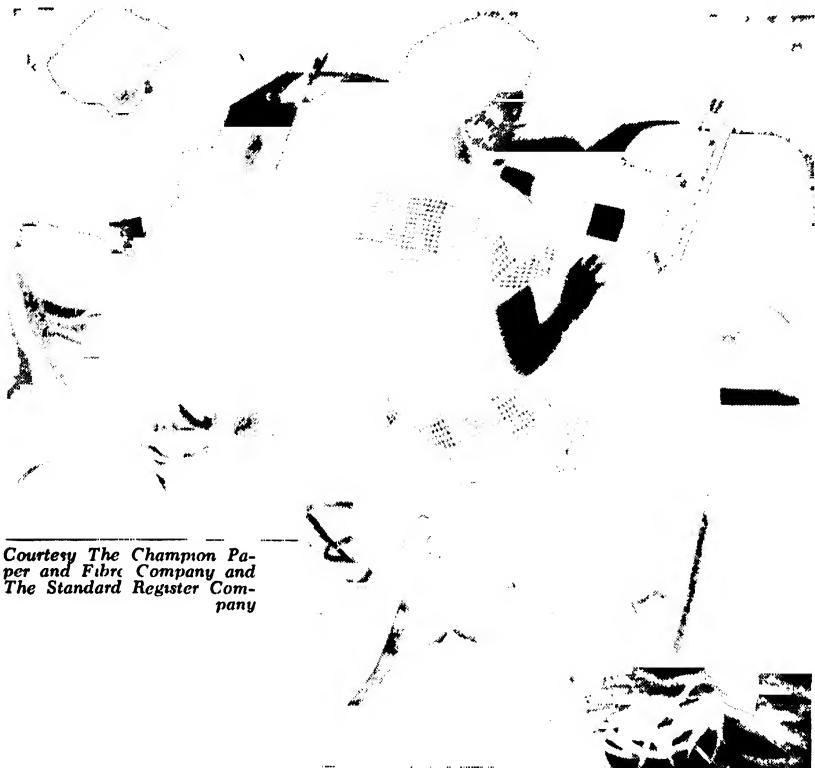
Courtesy TelAutograph Corporation

A message written by hand on the TelAutograph telescriber is transmitted instantaneously between near-by or distant points, thus providing a handwritten record, signed and initialed by each sender.

that a certain matter is being checked. In some banks, for instance, if a check is to be certified, the teller leaves the window to make a notation. Then he prepares one or two forms to be signed, and after a few minutes returns to look again at his notation. He then proceeds to have the check certified or to tell the customer that there are insufficient funds to cover the check.

The teller wrote on the TelAutograph, an electric instrument

that transmitted the actual writing to the bookkeeping department of the bank. There the depositor's account was inspected to see if the balance was large enough to permit certifying the



Courtesy The Champion Paper and Fibre Company and The Standard Register Company

As these operators type orders in the main office in Ohio, receiving teletypewriters in the company mills in Texas and North Carolina simultaneously type the same data on a duplicating master, from which the desired number of copies are made.

check, or to obtain any other desired information about the account.

The Teletype. The third method, the telephone typewriter, or teletype, also allows confidential communication. Two machines with typewriter keyboards are connected with telephone wires. A message typed at one machine is at once automatically typed at the other machine, which may be in an adjoining room or hundreds of miles away. Messages may be reproduced in typewriting at several stations simultaneously. This system may be used for



Courtesy American Telephone & Telegraph Company

These operators in a teletype central exchange office connect subscribers who wish to communicate with each other through typed messages

transmitting orders quickly from the sales department to the stock or shipping room, or for regular and frequent communication between the general office and branch offices. The telephone company also has established a telephone typewriter exchange service by which any teletype subscriber may communicate with any other teletype subscriber, using typed messages. The names of teletype subscribers are published by the telephone company in a directory.

MESSENGER AND INTERNAL MAIL SERVICE

In every office, papers are constantly being passed between desks, between departments, and between offices in separate buildings. If all the business of a company were carried on in one room, it might be possible to arrange the desks so that papers could be handed from one desk to the next without anyone's leaving his desk for that purpose. Anything that takes a deskworker away from his desk, even for a moment, interferes with the performance of his work. As an office grows in size, therefore, some arrangement is necessary for dispatching papers to another point, whether near or remote. The organization commonly set up for this purpose is called *house mail service*, *internal mail service*, or *intra-office mail service*.

The main features of internal mail service are regular and frequent trips by a messenger to deliver papers to departments and desks, and to collect papers intended for other departments and desks. Unlike ordinary messenger service, where the messenger responds only when called, the internal mail service is more or less automatic. The stopping places, or *stations*, are determined first, then the frequency of trips (which depends on the volume or urgency of the papers), then the selection of messengers. A schedule is prepared, showing the times at which the messenger starts each trip and the places at which he calls.

At each station, two trays are provided, one for incoming papers and the other for outgoing ones. Some parts of the office may require five-minute service; other parts may be well served with thirty-minute service. The important feature is its reliability—the assurance that every fifteen minutes or so, or whatever the time interval, a messenger will come. With such an arrangement, each deskworker simply deposits outgoing papers in that tray and takes up the next piece of work without delay. Provision always is made for emergencies, whereby a messenger may be called for a special trip that cannot wait the arrival of a regular house mail messenger.

Two methods may be used in sorting the papers picked up by the house mail messenger. One is the continuous sorting method, the messenger sorting the papers as he picks them up; the other is to defer sorting until the messenger has returned to the central

mail desk. Each method has its advantages and disadvantages, dependent on the frequency and length of trips. With long trips infrequently made, continuous sorting is probably better, since it minimizes the delays incident to central sorting, which is probably better when trips are short and frequent.



Prompt delivery of letters and papers to all departments is necessary to the expediting of work.

INCOMING MAIL

The internal mail service frequently is tied in with the incoming and outgoing mail services. A central mailing department is set up that receives, opens, reads, and sorts incoming mail, which is then delivered by house mail messengers. Likewise, they pick up outgoing letters and take them to the central mailing room, where they may be folded, enclosed, sealed, stamped, and taken to the post office if in quantity, or dropped in the nearest mailbox, if not.

So many departments seem to depend on the day's receipt of letters and orders that the manager who prides himself on the expedition with which his office turns out work makes sure that the incoming mail, and particularly the first morning delivery, is handled quickly and accurately, so as not to give any other department an excuse for delay in starting the day's work.

The opening of the mail should be so organized that when the office opens for business, the first morning mail, or the bulk of it, will have been opened, sorted, and distributed to the desks of those who are to handle it, with all necessary previous correspondence attached to it, so that work may begin everywhere throughout the office at the opening hour.

The mail is delivered in the morning either by the postman or by someone from the company's office, who goes to the post office for it. It is possible to get the mail earlier by going for it than by waiting for the postman to bring it. By making arrangements ahead of time, offices that handle large quantities of mail may get their letters from the post office as early as 6 a.m. and sometimes even earlier, to have it ready by the time the office opens.

Opening the Mail. As soon as the mail is received, it is usually taken directly to the mail-opening clerk, who first separates the letters that are specifically addressed to individuals from those addressed to the company. Then he opens the company mail and sorts it for delivery to the proper departments.

Where the volume of mail is small, it is usually opened by hand, with an ordinary letter opener. Medium-sized offices may use a small hand-operated mail-opening machine as a timesaver. Where a large volume of mail is handled regularly, an electric mail-opening machine is used. Whatever the method, the object is to open the envelopes as quickly and carefully as possible and to get the mail sorted with the least possible delay.

After the envelopes have been opened, the contents are removed, unfolded, and pinned to the envelope. Except to avoid mutilation of documents, clips should never be used to fasten papers together, since a clip is likely to pick up other papers, which then may be permanently lost.

Where several clerks are working on the mail, one may operate the letter opener, two or three may remove the contents and pin them together, while others read the letters for sorting. Some con-

cerns do not bother to keep the envelopes. However, if the envelope is destroyed at the mail desk, it should be examined to make sure that it is empty. Checks may easily be left in an envelope and overlooked. One simple device for inspecting envelopes is to pass them rapidly over an illuminated ground-glass plate set flush with the top of the table.



Courtesy Chase National Bank

Preliminary sorting speeds up the handling of incoming mail. Each compartment here is for a certain department of the organization.

It is desirable to note the time that letters are received. In the case of important orders that have been delayed, for instance, it is occasionally necessary to prove that the letter was not mailed when written or that it was delayed in transit. Clock-dating machines may be used for the purpose of recording the hour as well as the date of receipt. Some firms are satisfied to stamp merely the date when the letters arrive. Each concern decides this practice for itself, of course.

Eliminating Unnecessary Motions. It is possible to economize movements and time in handling mail. If the clerk forms the habit of opening, checking, and time-stamping one letter at a time, as soon as opened, he will be repeating many unnecessary motions. It is better to open all the letters first, then time-stamp them all at once, instead of laying down the stamp and picking it up again for each letter. In this way, each operation is carried out without any lost motion.

Reading the Mail. The clerk who sorts the mail often can tell at a glance the department to which a letter should be sent, although it is better to read the entire letter. When a letter must pass through several departments, it is so marked that the proper data may be entered or attached from the time that it is received until it is answered. Sometimes, the parts of the letter intended for different departments are copied on separate sheets to avoid the delay which might be caused by one department's having to wait until another department has finished with the letter.

As the mail reader determines the department to which each letter belongs, he places it in a designated compartment or rack. From there, a messenger takes the letters for delivery to the proper departments, using a bag with separate compartments.

OUTGOING MAIL

Outgoing mail comprises letters written during the day and business papers to be sent to customers or branch offices. In a small office, a stenographer or office boy takes care of it. In a large office, the facilities of a mailing room are used. The advantage of centralizing outgoing mail lies in quicker and better handling by specialists, knowledge of post office requirements, responsibility for postage, and relief of stenographers and secretaries for their major duties.

Outgoing mail is brought to the mailing room by the house mail messengers. Although the office manager should urge the dictation of correspondence early in the day so that letters may be mailed early and avoid delay and congestion at the post office, there always will be an increasing volume of outgoing mail as the closing hour approaches. All large offices set a deadline, after which no more outgoing mail is received in the mailing room.

After a letter has been checked for correct address and enclosures and has been signed, it must be folded and enclosed in the envelope. When window envelopes are used, it is necessary to fold the letter so that the address will fit the window.



At the tables, letters are folded and inserted in window envelopes, which are then sealed and stamped by machine.

Sealing and Stamping. Where the amount of outgoing mail is not large, sealing and stamping usually are done by hand. Large offices use machines that both seal and stamp from 3,000 to 18,000 letters an hour. Instead of stamps, many firms print *indicia* in the upper right-hand corner of the envelope. The printing of the indicia is done by the same machine that seals the envelope at the same time. Indicia are of two kinds, metered and nonmetered, according to the type of machine used.

The postage on metered mail is paid for in advance, by using a meter that is set by a post office clerk to print the amount of postage that is bought. The letters may be deposited in the post office

or any convenient mailbox. Nonmetered mail is paid for when it is taken to the post office; it cannot be deposited in letter boxes.

Metered indicia also may be printed on gummed paper tape and pasted on parcel post packages in place of postage stamps.

Examples of postage indicia.



Care should be taken that the correct amount of postage is used on all classes of mail. Every office should have a copy of the latest revised postal rates—obtainable from the local post office—and should keep it near the mail desk. A good postal scale is an indispensable piece of equipment in both large and small offices.

After envelopes have been properly sealed and stamped, they must be mailed, either by delivery to the post office or by deposit in a street mailbox. Many office buildings have mail chutes running from the top floor to the street floor, with openings on each floor so that letters dropped in any opening will go immediately to the mailbox at the bottom of the chute on the first floor. Large quantities of letters, however, must be delivered direct to the post office.

CENTRAL CORRESPONDENCE SECTION

In many concerns, the bulk of the letter writing is carried on by correspondents, who may be located in various departments or grouped in a central correspondence section. The advantages of centralizing the letter writing are better control over the work and improvement in the quality of the letters written. Provision also is made for taking care of incidental letters written by others in the company.

Where there is a central correspondence section, an effective plan is to have all incoming mail distributed to the heads of the

various departments concerned. Each department head or someone appointed by him notes the desired information on the letters, which are then sent to the central correspondence section for dictating. This plan makes it possible for a department head to give his attention to other work, knowing that the letters will be written by specialists in that field.

In charge of the correspondents is a head correspondent, who receives and distributes all the letters to be answered. He also may read all letters after they have been written, to be sure that the matters involved have been covered adequately and satisfactorily. He coaches his staff in letter-writing technique, sometimes even bringing together for a conference all employees who write letters. His records show the number of letters received and answered by each correspondent. His report is made to the office manager daily.

HOW LETTERS ARE DICTATED

A correspondent may dictate his letter to a stenographer or to a dictating machine. The stenographer who takes the dictation



Courtesy Shaw-Walker Company

A secretary taking dictation in shorthand.

Transcribing shorthand notes is simplified by an efficient arrangement of work materials.



may use either shorthand or a shorthand writing machine, which is supposed to be sold only to an operator trained in its proper use. Correspondents who organize their work try to get the bulk of their dictation completed the first thing in the morning, which gives the stenographer time to transcribe the letters and have them signed and mailed the same day without rushing. Where dictating machines are used, the correspondent may continue to dictate as long as he has letters to answer. Dictated records may be picked up and distributed by an office messenger. The transcriber places the record on her machine and listens to the voice of the dictator, just as though he were talking to her. Stenographers who have the opportunity to transcribe from dictated records or to use any other mechanical or electrical devices for dictation should appreciate the fact that they are using modern methods of facilitating business communication.

CENTRAL TRANSCRIBING SECTION

The advantages and economies of centralization are apparent in businesses that have a central stenographic and transcribing section instead of small groups of uncontrolled stenographers throughout the offices, who work only part of the time on letters, part on miscellaneous clerical work, or may be idle at times. When this work is centralized, each stenographer usually produces more, and a smaller force will be required. This centralization, however, does not mean that the important executives should not have private secretaries, who save valuable time for them and also handle confidential matters.



Courtesy Dictaphone Corporation

The girls in this central transcribing department are typing letters from records made on dictating machines.

The head of the stenographic section assigns the work to her staff, supervising them and giving assistance wherever necessary. At times, a stenographer is assigned to a dictator when called for. Scheduled times for dictation are usually more satisfactory, but sometimes there are hindrances to this plan. The head stenographer keeps a record of the work of each girl, rendering a daily report to the office manager.

SHOULD ALL LETTERS BE FILED?

Formerly, business offices kept not only every letter and paper received, but also a copy of every letter and document sent out, regardless of its value or importance. Many offices still follow this practice. A casual inspection of file cabinets in almost any office would show that hundreds of letters and papers of no value are

Mr. W. McLean, Jr.

-2-

January 15, 19--

Never carry only one or two lines to the following page
or end a page with a hyphenated word

A postscript appended to a letter is typed at least two spaces below the identification data. Indent the first line of the postscript five or ten spaces (depending on the indentation of the paragraphs), type the dictator's initials below the postscript. XXXXXX XXXXXXXX XXX XXXXXXXX XXX XXXXXXXX XXXXX XX XXXXXX XXXXXXXX XXX XXXXXXXX XX XXXXXXXX X XXXXXXXX XXXXX XX XXXXXXXX

Yours truly,

CBC • DD

Charles B. Collingsworth
Secretary

C, B, C

THE COLUMBIA MINING CORPORATION

Boise Idaho
Butte Montana
Portland Oregon
Spokane Washington

2450 SIXTEENTH AVENUE EAST, SEATTLE 2, WASHINGTON

January 16, 19--

Mr W McLean, Jr
Director of Personnel
Dublin Bank & Trust Company
Market and Sansome Streets
San Francisco 12, California

My dear Mr McLean

Subject: Two-Page Letter

The modified block form with standard open punctuation is the style most generally used in business. The date line ends even with the right-hand margin. xxxxxxxx xxxxx xxxxxxxx
xxxxxxx xxxxxxxx xxxx xxxxxxxx xxxx xxxxx xxxx xxxxxxxx
xxxx xxxxx xx xxxx xxxxxxxx xxxx xxxxxxxx xxxx

The subject line may be centered two spaces below the salutation xxxxxx xxx xxxx xxxx xxx xxxx xx xxxx
xxxx xxxx xxxxxxxx xxxx xxxx xx xxxx xxxx xxxx x xxxx

Indent the paragraphs five or ten spaces. xxxx xxxx x
xxxxxxxx xxxx xxxxxxxx xxxx xxxxxxxx xxxxxxxx xxxx xxxx
xxxxxxxxxx xxxx xxxx xx xxxxxxxx xxxx

Start the complimentary closing, the firm name, and the signature near the center of the paper

If a firm's product varied in quality and appearance as much as its letters, how long would the firm retain its customers? Giving a model letter like this to each secretary helps to establish a desirable uniformity in the firm's letters. Here is one place where it is easy to establish standard practice.

being preserved. Some firms ignore the fundamental fact that the reason for filing a letter is the assumption that it will be wanted for reference at a future time. Office managers question the wisdom of using valuable office space for expensive file cabinets to hold papers that may never be referred to again.

THE PURPOSE OF FILING

Filed material forms a vital part of the records of every business. The object of filing letters and papers is not to dispose of them—the wastebasket could serve that purpose—but to provide a temporary or permanent storage space for them and to make it easy to find those that are wanted later. The average businessman is not expected to remember all the prices that have been quoted, the details of every contract, or the contents of all the letters written, if he can depend on the office files and records to furnish him the information as needed. These records may consist of correspondence, miscellaneous information, or financial data.

A good filing system is one that is adapted to the business, that can be depended on for accuracy, and that will produce at once the information desired. Different kinds of records may require different methods of indexing or a certain kind of equipment, but the purpose is the same—to make the desired information immediately available.

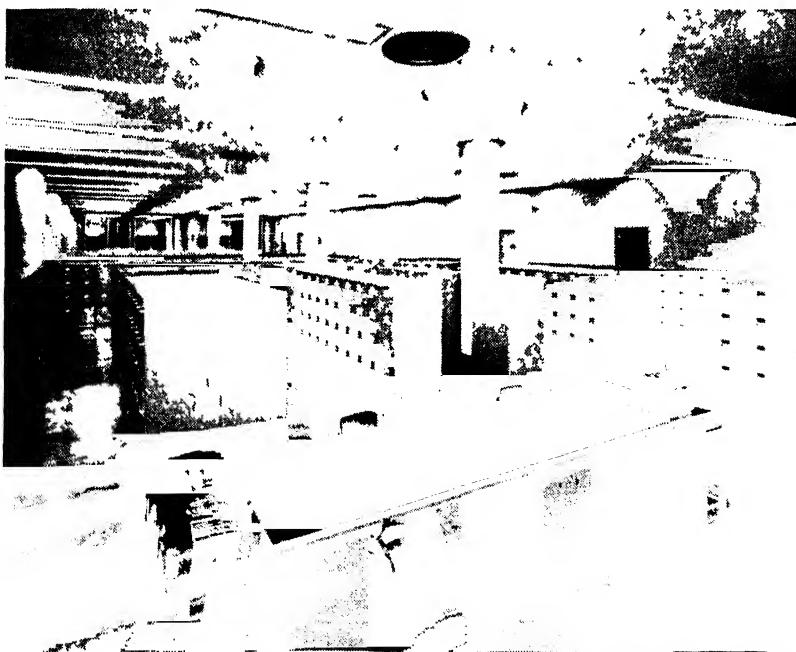
Competent filing clerks are essential to the successful operation of any filing system. The most common reason for the failure to find material that has been filed is that the person who filed it was not a trained filing clerk. Well-educated and well-trained supervision is also necessary, as well as thoroughly standardized and maintained methods. Accuracy should be especially stressed, as a letter misfiled is permanently mislaid, entailing possibly serious consequences.

CENTRAL FILING SECTION

Unless there is a central file system, it is not possible to fulfill the above requirements. Department files will receive indifferent attention, for the amount of material filed in any department is not usually sufficient to require the full time of one file clerk. The work therefore is attended to by a miscellaneous assortment of

untrained clerks. Furthermore, decentralized files increase the expense of obtaining the needed information.

A central filing system can be managed much better than small groups of files scattered throughout the office. The material will be kept in better order, the work more economically done, and in general much better service will be given. This, of course, does not refer to the private files of the chief executive, which may contain much material that should not be in the general file.



Courtesy *The Florsheim Shoe Company*

In this filing department, no space is wasted, yet there is plenty of room for work. A television camera would reduce the number of filed papers sent out.

There is no question of the desirability of a central filing department for even large offices, with hundreds of clerks scattered over a considerable area. The saving of labor alone is well worth consideration. The delay to the work is not serious if the department is well organized, and does not compare with the delay experienced in departmental files where the filing is haphazard.

The Filing Survey. The first step in the organization of a central filing department is to make a canvass of all desks in the

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THE FOSTER INSURANCE COMPANY

123 LEXINGTON AVENUE

NEW YORK 22, NEW YORK

February 26, 19--

Mr. William Wright, General Manager
 The United Products Corporation
 500 Madison Avenue
 New York 22, New York

Dear Mr. Wright:

Enclosed is a plan that we believe is the finest ever offered in the field of [fire insurance]. Study it carefully and see if the needs of your organization for full protection from fire are not completely met by it.

On Monday, March 3, our representative, Mr. Becker, will call at your office to discuss this plan with you and to give any further explanation of it that you may desire.

In keeping with your recent expansion program, you will, no doubt, be purchasing more trucks to meet your growing needs. Let us be the underwriters for all your future automobile insurance. When Mr. Becker calls, he will gladly discuss our automobile insurance policies with you.

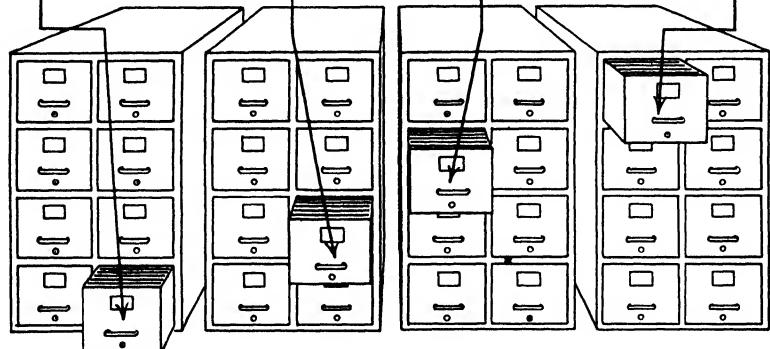
Very truly yours,

FOSTER INSURANCE COMPANY

J. Major Downman

Field Representative

JMT:as



This letter is marked to show the four ways in which letters may be filed: numeric, alphabetic, subject, and geographic.

office to determine what material there is to be filed and what information each desk occupant requires from the central file. The canvass, which may be in questionnaire form, should cover every paper, record, or report made, handled, or kept in the office.

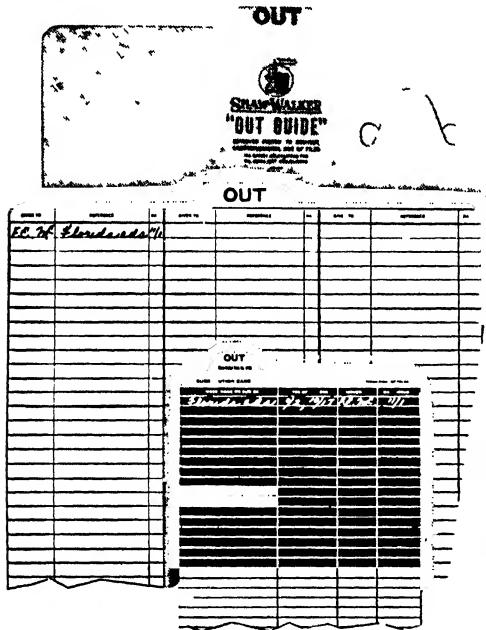
Records that are referred to constantly in the department in which they are made, such as purchase requisitions and copies of purchase orders or paid vouchers in the accounting department, should remain there, as no good purpose is served in centralizing them.

The Right Kind of Filing Service. Papers and letters intended for filing are brought to the central filing section through the house mail service. The head file clerk goes through the material rapidly, classifying it for filing. It is then roughly sorted and turned over to the file clerks, each of whom has a special section for which she is responsible. After another sorting or two, the papers are filed in the drawers in the filing cabinets. It is imperative that papers be filed, or at least sorted, within a few hours after reaching the filing section. A special sorting device, called the "Sortergrat," often is used to facilitate quick sorting before filing.

When papers are wanted from the files, they may be requested in person, by telephone or special messenger, or through the house mail. Ordinarily, there are three occasions that require getting correspondence from the files: (1) information is needed to answer a letter; (2) a customer is coming in for a conference; or (3) a question has come up that requires reference to previous correspondence. The first probably is taken care of best by having the mail reader send to the filing section all incoming letters that refer to previous correspondence, so that when the letter reaches the correspondent, it will have all the necessary papers attached to it. The second situation usually can be anticipated far enough ahead to permit routine procurement of filed material. Only in the third instance is there need for immediate and special attention.

A Much-needed Control. It should be a hard and fast rule that no papers be kept out of the files overnight. This gives the filing department control over papers entrusted to its care. When everyone has confidence in the ability of the filing section to produce any desired paper at a moment's notice, there should be no

hesitancy in following such a rule. The usual excuse for holding papers out of the files is the fear of delay in getting them immediately when wanted.

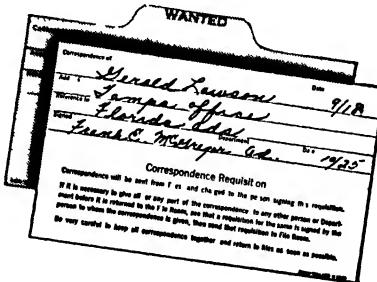


Filing Aids

- An out-guide.
- An out-card showing to whom file has been given.
- A substitution card.
- A cross-reference sheet.
- A wanted or on-call card.
- A requisition card.

CROSS REFERENCE SHEET	
Name or Subject	<u>Florida ads</u>
SEE	
Name or Subject	<u>Oranges</u>
Date	<u>9/25</u>
Correspondence pending	
File	

Courtesy Shaw-Walker Company

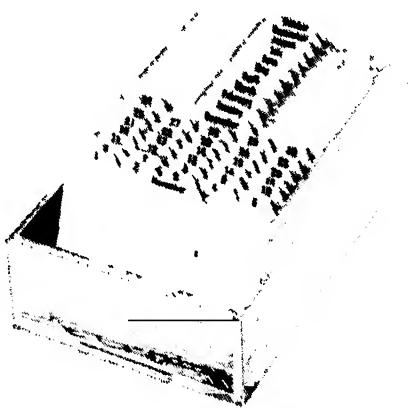


Central Follow-up File. One helpful service of the central filing department is the operation of a central tickler or follow-up file. Memorandums of letters or papers wanted at a future date can be sent to the central filing section, which will produce them on the date requested. Private matters may be placed in sealed envelopes bearing the notation, "Bring up on—(date)," and signed by the person who is to receive it.

The central tickler file consists of twelve guides, one for each month, and file folders, one for each day, numbered from 1 to 31. The item to be followed up is placed in the folder bearing the follow-up date, behind the guide for the indicated month.

Control Reports for the Office Manager. The office manager should require regular reports from the file department as to the number of pieces received for filing and the number of requests for material to be withdrawn from the files. This record should be kept daily and reported not less often than weekly. It requires little labor, but furnishes a good index to several other features of office management, besides the work of the file department itself.

Regular Inspection Desirable. A routine inspection plan also should be put in operation. It cannot be done by merely glancing at a file drawer now and then. Nor is it necessary to make a complete examination of the entire filing section. It should consist, however, of a complete study of a small section of the work of each filing clerk, selected at random. It should cover (1) accuracy of the filing, (2) thoroughness of cross indexing where that is necessary, (3) neatness of folders, and (4) correct position of folders and guides. The preparatory work, such as indexing, sometimes called *classifying* or *coding*, also should be checked by holding back for examination a section of the work before it is filed. Attention to these points gives the office manager effective control of the filing work.



Courtesy Remington Rand Inc.

Either cards or folders may be used in a tickler file.

CENTRAL STATIONERY SECTION

Central control of forms and other stationery items and supplies is desirable for two reasons: (1) to minimize the chances of waste, and (2) to eliminate the purchase and use of unauthorized items.

The first step in such control is to establish a central stationery storeroom in which all items are received, counted, and stored. The central storeskeeper is responsible for stationery received, and nothing is to be disbursed except on properly signed requisitions. There is no objection to having small local supplies of stationery, especially in departments of large offices; but they should be limited to a week's requirements, however, not only to keep down the investment in supplies, but also to economize on space.

The central storeroom should be located where it will be convenient to those who use it. It may be only a closet large enough to hold the necessary quantities, and the storeskeeper may be a clerk who gives an hour or so a day to this part of his job. Or the storeroom may consist of several bays and require the full time of one or more persons. In any case, it should be kept locked, with duplicate keys in the possession of the office manager.

Layout of the Storeroom. The arrangement of the storeroom is essential to its satisfactory and economical operation, with the object of making all items accessible. Adjustable shelving is the most satisfactory. If several shelves are required, they are best arranged in stacks to form aisles, on both sides of which the shelves open. These aisles should not be less than 30 inches wide and should be wider still if a truck is to pass through them. If steel shelving is not available, wooden shelving, of course, will serve the purpose.

Stationery items, like any other stock, should be issued only on proper authority. This is usually in the form of a requisition signed by someone in authority, ordinarily a department head or someone designated by him for the purpose. The stationery requisition should show exactly what is wanted and the quantities. The name of the person receiving the items should be signed to the requisition, as well as the department or account to which the materials are to be charged, and the date.

Each department head should know how much is charged to his department each month for stationery and printing, so that he may investigate any unusual increase by inspecting the individual requisitions, if necessary. The office manager also should watch charges to departments and bring any unusual increase to the attention of the department head for investigation and action.

CENTRAL COMPUTING SECTION

A central computing section is often a distinct advantage. Adding machines, comptometers, computing machines, and similar mechanical aids require trained operators. The difference in their output and that of persons who work at machines only occasionally or for a short period each day is about 4 to 1. If there is computing work to be done in other departments, it can be handled in the same manner as dictation—by sending an operator from the computing section to such departments.

CENTRAL DUPLICATING SECTION

Mimeographing, multigraphing, and other duplication work also are handled much better by a central section than in isolated sections. Whenever any duplicating work is required, a requisition is made out, showing the quantity and date required and other pertinent details, including the department or account number to be charged. The requisition then is submitted to the office manager or someone designated by him for inspection and approval. In this way, questions of priority of service can be settled without too much difficulty.

So that the office manager may know what is being accomplished by the various office services, he should receive a daily report from each section, showing the work received, the work done (divided into departments served, if possible), and any work left over, with the reasons therefor.

QUESTIONS FOR REVIEW AND DISCUSSION

1. Name twelve office services, and state briefly how each facilitates other office work.
2. Who is responsible for office service? Why?
3. What three factors are involved in telephone service?
4. Why should the use of company telephones for personal calls be restricted? How can this be controlled?
5. How may toll calls be regulated? Why should they be controlled?
6. Comment on methods of making and answering telephone calls.
7. Why is it desirable to have a competent and well-trained telephone operator?

8. How may the office manager determine what and how much equipment is needed to give satisfactory telephone service?
9. Explain how the private automatic switchboard is used.
10. Explain how the Dictograph is used.
11. Explain how the TelAutograph is used.
12. Explain how the teletype is used.
13. Is house messenger service considered economical? Explain.
14. What are the main features of internal mail service?
15. Describe in detail how incoming mail is handled.
16. Describe in detail how outgoing mail is handled.
17. How is the writing of letters handled in most business concerns?
18. What is the advantage of having a central correspondence department?
19. What are the advantages of a central stenographic section, and how is it operated?
20. Comment on filing service.
21. What are the advantages of a central filing department?
22. How would you proceed to organize and operate a central filing department?
23. Describe the central tickler and its purpose.
24. Why should the office manager require reports from all the office service departments?
25. How may the files be inspected for accuracy of filing and condition of the work?
26. What are the advantages of stationery control?
27. How would you set up and operate a central stationery store-room?
28. When would a central computing department be helpful?
29. Why would a central duplicating department be helpful?
30. From the discussion in this chapter, make a list of the advantages and disadvantages of central office service departments.

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees, as explained previously.

1. Ask permission of the office manager of a business concern in your community to come to his office early enough to watch the opening and reading of the morning mail.
2. From the same concern or another one, ask permission to watch the mail clerks prepare the outgoing mail in the late afternoon.

3. Find out if any concern in your community has an intraoffice messenger service. Then ask permission to accompany the messenger on one of his rounds. Watch closely everything he does, ask questions freely, and take notes. Then describe the service, stating the purpose, explaining what is done to carry out that purpose, and describing the equipment or furniture used.
4. Visit some concern in your community that uses dictating and transcribing machines, and ask the office manager to let you watch the steps taken in dictating and transcribing letters on the machines.
5. How would you find out who sent an unsigned business letter, written on plain paper, containing no name or address, and mailed in a plain envelope?
6. Visit a business house that has a private branch telephone exchange, and ask the office manager to show you how calls are received and made, and what telephone records are kept.
7. Select ten important foreign cities and prepare a chart showing the cost of sending a telegram, a cablegram, and a radiogram from your locality. Show also, if you can, the time it would take to transmit each kind of message.
8. Prepare a map of the United States showing the different time zones. Such a map will show the cities that are on Eastern time, on Central time, on Mountain time, and on Pacific time. Using a colored crayon, show which sections of the country are on daylight-saving time.
9. Visit a bank in your community, and ask the cashier to show you what records are filed in the bank and how they are filed.
10. Visit any local manufacturing concern, and ask the manager to show you what letters, papers, and other records are filed and how they are filed.
11. Visit any local store, and ask the manager to show you what letters, papers, and other records are filed and how they are filed.
12. Ask the librarian at the public library to show you how books are classified and catalogued. Be sure to look at the card catalog.
13. Ask the secretary of your school to show you how she files letters, papers, and other records.

PROBLEMS

1. Imagine yourself to be the clerk who reads the incoming mail of a large business house to determine the department to which each letter should be sent. The departments are:

Accounting	Employment	Receiving
Adjustment	Filing	Sales
Advertising	Manufacturing	Shipping
Cashier	Purchasing	Treasurer
Credit		

Copy the names of the thirteen departments on a sheet of paper, listing them in a single column. Indicate to which department you would send each of the following letters by writing its italic letter beside the name of the department.

- a. Complaining of the receipt of damaged goods
- b. Giving references as to financial standing
- c. Asking for an extension of time for payment of a bill
- d. Asking for a report on a former employee
- e. Giving quotations for the sale of goods
- f. Asking for quotations on the net price of goods
- g. Applying for a position with the company
- h. Applying for the purchase of stock in the company
- i. Complaining of the nonreceipt of goods
- j. Giving instructions regarding future shipments
- k. Containing remittance for the payment of a bill

2. From a newspaper or magazine, list on a sheet of paper the names of fifty advertisers, selected at random.

- a. Now write these names in strict alphabetic order. Make a note of the time that you started to write the names alphabetically and the time that you finished.
- b. On slips of paper, about 1 by 3 inches, copy the names of fifty advertisers from another newspaper or magazine, one name on each slip. Then arrange the slips so that the names are in strictly alphabetic order. Note down the time that you started to arrange the names alphabetically and the time you finished.
- c. Compare the time taken for *a* with the time for *b*. Which took less time? Why? Can you think of some way by which the names on the sheet in *a* could be arranged as quickly as the names on the slips in *b*? (There is a way).

3. Much of the correspondence of one concern is coming into the office addressed to the salesmen and not to the company. Because of this, correspondence is left on the salesmen's desks while they are out of town on their trips, when it should be handled by someone in the department. How can this be remedied? Give your reasons.

4. In one office, if a clerk wants to dispatch a business paper to another desk or department, he takes it himself. How can the employee's time be saved? Give your reasons.
5. The mailing department of a business concern receives mail twice a day. It sends mail to the post office three times a day by messenger. There is one department of the company that never has its mail ready for the noon delivery. What might be done about this? Give your reasons.
6. Each department of a manufacturing concern has its own filing cabinets and does its own filing. Quite often, one department requires material from another. The problem is whether a centralized filing system should be installed. What would you do? Give your reasons.

CHAPTER IX

Organization for Administration and Control

No business runs itself, even on momentum, which some wit has defined as "slowly coming to a dead stop." Like a rolling hoop, which has to be struck repeatedly and guided to keep it rolling, every business needs repeated stimulus. Like a hoop that has slowed down and is wobbling, a business that has slipped badly needs a lot of attention and stimulation. It is not easy to build a business; it takes time, intelligence, and hard work. It is easier to keep a business running smoothly by giving it proper attention than to stimulate it after it has been allowed to wobble and turn without direction.

FIVE VITAL FUNCTIONS

The aims of administration and control are to keep the business on an even keel, to supply the necessary stimulus and direction, and to look ahead for possible opportunities as well as danger signals. In some concerns, administration includes management. In others, it is more or less separated from management and, in such cases, simply refers to the establishing and maintaining of major policies, while management carries out those policies.

Administration and management together include five functions.

1. Determining the results to be accomplished
2. Planning how those results are to be accomplished
3. Building the organization to secure those results
4. Directing the organization to secure those results
5. Controlling the organization, the plans, and the results

Meaning of Control

- 1 Knowing exactly what work is to be done as to
 - a Quantity
 - b Quality
 - c Time available
- 2 Knowing what resources are available for doing that work as to
 - a Personnel
 - b Materials
 - c Equipment
 - d Other facilities
- 3 Knowing that the work has been done, or is being done
 - a With the resources available
 - b Within the time available (which involves quantity)
 - c At a reasonable cost (compared with standard cost)
 - d In accordance with the required standard of quality
- 4 Knowing immediately of any delays, holdups, or variations as to
 - a What happened
 - b Cause
 - c Remedy
- 5 Knowing what is being done to remove such hindrances as to
 - a Who is doing it
 - b How it is being done
 - c What it is costing
 - d When it will be completed
6. Knowing about the completed work as to
 - a Time finished
 - b Quality
 - c Final cost
7. Knowing that recurrences are guarded against
 - a In what way
 - b By whom
 - c At what cost
 - d With what provision for periodic inspection

(From Davis and Stetson "Office Administration" published by Alexander Hamilton Institute)

Classification of Management Problems

Management problems can be classified roughly in five major groups.

1. Problems of *policy*, which involve the setting of major objectives and formulating plans of action for their attainment.
2. Problems of *organization*, which involve the classification of activities into administrative groups, fixing responsibility for the performance of each group, and providing for the proper coordination of all groups so they may cooperate effectively in the attainment of the objectives.
3. Problems of *personnel*, which involve the procurement, development, and use of individuals to perform the responsibilities established by the organization plans.
4. Problems of *facilities*, which involve the procurement, maintenance, and use of the physical properties needed in the performance of the operations necessary in the attainment of the objectives.
5. Problems of *method*, which involve the establishment and use of routines and procedures needed for the effective performance of the operations necessary for the attainment of the objectives established by the policies.

All the problems that come to the desk of a typical executive can with a little ingenuity be placed within the limits of this classification. There are some problems, of course, that fall within two or more of these groups.

(From James O. McKinsey, "Organization Problems under Present Conditions," in General Management Series 127, published by American Management Association)

APPLYING THE FIRST PRINCIPLE OF MANAGEMENT

Another way of stating the first function of management is: "Determine your objective." An objective is a result that is desired, an object that is aimed at and it is hoped will be attained. The ultimate objective of any business is profit through service; but there may be and usually are a number of more immediate objectives before the final one is reached.

How to Solve Any Management Problem

It is easier to study a problem when your analysis is before you in black and white.

1. Recognize it as a management problem. What makes it a management problem?
2. State the problem clearly.
3. Classify the problem. To what class or classes of management problems does the above management problem belong? Why?
 - a. Policy
 - b. Organization
 - c. Personnel
 - d. Facilities
 - e. Method
4. Analyze the problem. What do you think is the basic difficulty involved in the above problem?
5. Tackle the problem.
 - a. What approach to the solution of the problem would you suggest?
 - b. What objectives would you expect to attain by your suggested solution?
 - c. What obstacles might you encounter in the course of your solution?
 - (1) Of a policy nature?
 - (2) Of an organization nature?
 - (3) Concerned with personnel?
 - (4) Concerned with facilities?
 - (5) Concerned with methods?
 - d. How would you meet and try to overcome these obstacles?

No wise general says, "I will win this war." Rather, he says, "I will take this town, then that town, then that hill, then that river, then that city"; and so on until the war is won. The general carefully plans each step, determining what obstacles must be overcome, what forces are necessary to overcome them, what forces

are available, how much equipment they will need, how much softening of the enemy is needed, when preliminaries should commence and where, when the attack should begin and where, and by what forces led by whom. Each step is planned and scheduled. The timetable shows each officer where he is to be at stated times. He knows that the success of the operation depends on his being at that designated point at that time.

The general gets reports of progress from each sector. If the forces in one sector are delayed or stopped, reinforcements may be sent in, a withdrawal may be ordered, or some action appropriate to the circumstances is taken. Without this constant stream of information, the general would not know what was going on, or what to do or where to do it. He would not have control.

T R A D I T I O N A L P L A N N I N G

How does the management of a business concern make plans for the coming year, or for whatever period plans are to be made?

There are two approaches to this problem. The traditional one is to say that during the coming year the company will introduce its products or services in certain areas, using distributors, salesmen, advertising, sampling, demonstrators, mail sales campaigns, and so on. This objective may look definite enough; actually, it is rather indefinite. As expressed here, it is really nothing more than hope—a hope to be able to say at the end of the year that the product has been established in new areas, after exerting every effort. It is hoped that a profit will be made, but the company may be satisfied if it attains its stated objective—establishing the line of products in the indicated areas.

S C I E N T I F I C P L A N N I N G

In contrast, consider the scientific method of approach. The first step is to determine the margin of profit to be realized at the end of the period. Since a margin will be realized if the operations are successful, why not determine it in advance? This is not mere wishful thinking, but is based on considerations of what a reasonable margin for the period would be. The approach is not merely a hopeful one: "Let's make \$100,000 this year!" It is coldly analytical: "On the basis of our past experience, the present market

conditions, and our facilities, a margin of \$100,000 is a reasonable objective."

There is only one way to make a margin of \$100,000, except through accident. That way is to determine what volume of goods must be sold to produce \$100,000 margin. As an illustration and to simplify the discussion, suppose that the company makes only one product, which sells for \$5. A reasonable margin on each sale would be 10 per cent, or 50 cents.¹ To make \$100,000 margin would require the sale of 200,000 units at \$5, on each of which a 50-cent margin is taken. Note that the margin is taken first.

Taking 50 cents out of \$5 leaves \$4.50 to cover the cost of manufacturing, selling, and administering the business. That is, the only restriction on all costs of every kind is that they must not total more than \$4.50 for each of 200,000 units, or \$900,000 altogether.

Planning Sales. The sales department, with a definite assignment of 200,000 units to sell, analyzes its possible markets and the methods and costs of reaching those markets, determines what advertising will be necessary, how many salesmen will be needed, and how many units each salesman should sell. The resulting figure for selling costs is, let us say, \$200,000, or \$1 for each unit sold.

Suppose administrative costs are figured at \$100,000, or 50 cents on each unit sold.

There remain \$3 out of the \$5 price. Within the limits of this \$3, the manufacturing department can make the best product it knows how. Suppose the manufacturing overhead is figured at \$60,000, or 30 cents on each unit. That leaves \$2.70 for materials and labor. If materials are one-third and labor two-thirds, we should have \$1.80 per unit for labor, and 90 cents for material. Let us tabulate these figures and look at them.

¹ Whether the margin should be 10 per cent, 20 per cent, 15 per cent, or some other figure is not so arbitrary as might appear; it is determined largely by the fiscal requirements of the business. For example, a stockholder owning a 5 per cent preferred stock of \$100 par value in a corporation capitalized at \$1,000,000 expects to receive a \$5 dividend each year on each share of his stock; that is why he bought it. Five per cent of \$1,000,000 is \$50,000. If a company clears a margin of \$100,000 on sales of \$500,000 and pays half of it in dividends, it has \$50,000 left for taxes, depreciation, reserves, and surplus. That may be enough, or it may not. The percentage of margin on sales must be set with an intelligent and realistic appreciation of what the financial obligations of the business will be.

	<i>Selling Price \$5 per Unit</i>	<i>Sales Quota 200,000 Units</i>
	<i>Amount Allowed per Unit</i>	<i>Total Amount for 200,000 Units</i>
Margin	\$.50	\$ 100,000
Selling costs	1.00	200,000
Administration costs	.50	100,000
Manufacturing costs:		
Overhead	.30	60,000
Labor	1.80	360,000
Materials	.90	180,000
	<hr/> \$5.00	<hr/> \$1,000,000

Observe two points: the margin is put first, not last; and the sales quota is given in number of units to be sold instead of in total dollar volume of sales. Why speak of dollar volume of sales when the only way to reach that volume is by the sale of a definite number of units? As each unit is sold, the margin on that unit is set aside. When 200,000 units have been sold, the entire margin of \$100,000 has been set aside, which was the objective.

SIX ELEMENTS OF CONTROL

There is present in every management problem a multitude of elements and conditions, some desirable, which the manager wishes to retain, and others of an opposite character, which he seeks to eliminate or to avoid. Controlling, therefore, is the conscious directing or influencing of certain causes so that certain desired effects will result.

The six elements of control are authority and knowledge, guidance and direction, constraint and restraint. To be in position to exercise control, the manager must (1) know what the situation is, (2) know what it should be, (3) know how to correct it, and (4) have the authority to take the appropriate action. To bring about control, therefore, the manager must have his lines of communication established, open, and working. He must face the facts. He must decide what action is indicated by the facts. He must have the ability, willingness, and courage to put his decisions into effect.

A department head must know what work is expected of his department and what facilities he has to accomplish the work. Then he must organize the workers and divide the work equitably

Factors Concerned in Department Management

1. The work of the department
 - a. Technical work
 - b. Clerical work
2. Facilities with which to work
 - a. Equipment and layout
 - b. Materials
 - c. Working conditions
3. Personnel of the department
 - a. Personnel needed
 - b. Selection
 - c. Training
 - d. Handling
 - e. Remuneration
4. Administration and control of the department
 - a. Records
 - b. Reports
5. Relation to other departments and to the rest of the organization
6. Contact and relations of department head with and to his superiors

among them. He must instruct them in the best methods of doing the work and must see that the work is carried out in accordance with his instructions. He must keep the quality of the work up to standard and must keep production up to schedule.

HOW TO SECURE CONTROL

A manager or department head can secure control of any operation, routine, or function by analyzing the situation in the following order.

1. Outline the steps that take place in the performance of the work.
2. Indicate the points at which control is needed to prevent plans from going astray. Consider what might happen if control were not present, such as unauthorized action.
3. Establish control mechanisms at points where control is desired. A control mechanism is any device, means, or procedure that keeps the executive informed as to the activities for which he is responsible,

and that assures him that his plans and policies are being carried out according to schedule.

4. Assign to some individual the responsibility for seeing that the control mechanisms work correctly, and make sure that he understands his responsibility.

How a Manager Exercises Control

1. The purpose of a control mechanism is to assure the completion of all tasks:
 - a. In the order planned
 - b. In the time scheduled
 - c. In the precise manner specified
 - d. By the person or persons to whom assigned
2. The manager must see that:
 - a. Flow of work is uninterrupted
 - b. Each duty is performed in proper sequence
 - c. Work is finished according to schedule
3. The manager must know:
 - a. How each activity is to be accounted for
 - b. Who is accountable for each activity
 - c. Available means to accomplish desired results
 - d. If any department or part of the work is running behind schedule, in time to correct the situation
4. Work running behind schedule may be due to:
 - a. Sudden and unexpected increase in volume of work
 - b. Absence of employees assigned to that work
 - c. Ineffective work
 - d. Ineffective supervision
5. The manager should know daily for each department:
 - a. Volume of work received
 - b. Quantity of work completed
 - c. Amount of work left over, if any
 - d. Reasons for work being left over

GETTING NECESSARY INFORMATION FOR CONTROL

From the standpoint of management, the collecting and presenting of vital information concerning the business are functions of the accounting department, because that department is in better position to do this than any other department. Ordinarily,

one thinks of the work of the accounting department as merely keeping the books and recording the changes in assets and liabilities. Actually, those duties are minor compared to the responsibility of keeping the management informed.

What information does the management require from the accounting department?

The questions that the management wants answered are: "How are we doing? Our plan calls for so-and-so. Are we doing so-and-so? If not, what are we doing, and who is responsible? In what way are the actual results differing from the planned results? What and who are responsible?"

With the information indicated, the management can act intelligently, that is, with understanding. Without this information, the management is in the dark.

Management Control Ratios

Ratios express the relationship between two sets of figures. The most common *financial* ratio used in business is probably the current ratio—that is, the ratio of current assets to current liabilities. Not so familiar, however, are *nonfinancial* ratios, which show operating efficiency of management. Following are some helpful ratios of that kind:

$$\frac{\text{Number of delivery promises filled on time}}{\text{Number of total orders shipped}}$$

$$\frac{\text{Value of materials spoiled}}{\text{Total value of materials handled}}$$

$$\frac{\text{Number of replies to date}}{\text{Per dollar of advertising}}$$

$$\frac{\text{Number of sales}}{\text{Number of inquiries}}$$

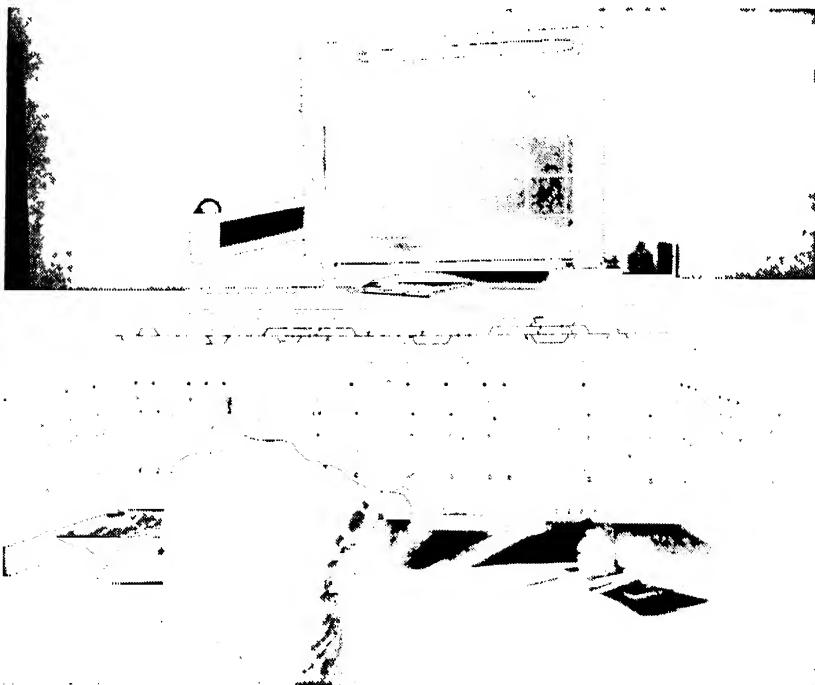
$$\frac{\text{Number of calls per salesman}}{\text{Total sales by salesman}}$$

$$\frac{\text{Number of separations}}{\text{Average number employed}}$$

$$\frac{\text{Value of returned goods}}{\text{Value of total shipments}}$$

(Courtesy Henry P. Dutton and Factory)

A moment's consideration will show that the management is comparing the actual progress with the plan, to be sure that the plan is being followed, or modified if the information received indicates the need of change.



Courtesy Norfolk and Western Railway

The railway dispatcher at this centralized traffic control board controls all switches and signals over almost a hundred miles of track. Lights denote positions of trains. The dispatcher cannot make conflicting moves, nor can he clear a signal when train is occupying the block.

WHAT SHOULD A PLAN SHOW?

The plan shows what each person in the company is expected to do, when he is expected to do it, and how much money may be spent in doing it. Each salesman knows how many units he is to sell, where he is to sell them, and in what periods. As a matter of fact, in many lines of business, the salesman knows the customer he is to sell, and how much he is to sell to each customer. This is quite different from selling the customer all that he can be persuaded to buy; that is bad business for everybody, as can readily be demonstrated.

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The salesmanager can analyze the market for his goods in each city or town for which he has the detailed information that this form provides.

MANUFACTURING TO A PLAN

Suppose that an analysis of the retail merchants in a certain community shows seven leading dealers, the class of store that each conducts, the lines carried by each, the estimated volume of

sales, the location, the appearance of the store, and the credit standing of each merchant. With respect to the community, the analysis shows the population, divided into age and sex groups, the leading industries, general conditions, and so on.

With this information, a wholesale clothier can determine the order of preference of dealers for his particular line, the relative desirability of giving exclusive representation to one merchant as against splitting the business among several, and, especially, the quantity of the wholesaler's line that the selected merchant could handle to advantage. Given enough information, supplemented by what a successful retail merchant knows about his customers, the wholesale clothier can estimate with remarkable closeness how much the retail merchant should buy.

If the salesman, before calling on the customer, goes over these details with the sales manager and the credit manager, there is little likelihood of his selling the customer too large a bill of goods. When a retail merchant has bought more goods than he can sell in the season, he is going to be slow in paying his bills, and he is not going to be a very good customer for the following season.

Constructive sales management will not countenance overselling, which is not only uneconomic, but poor business all around.

Based on the sales quota, the manufacturing department can plan its production, indicating the quantities of each kind of material to be procured, the delivery dates, the equipment needed, the help needed, and so on. The *production curve* can be planned in advance so that, instead of moving up and down with sales, it is more nearly horizontal, making possible definite and more steady employment for workers.

ISN'T SCIENTIFIC MANAGEMENT WORTH WHILE?

Throughout the organization, therefore, the work of each individual is laid out; he knows what he is to do and when he is to do it. Any failure, weakness, or lack of accomplishment at any point is *immediately* shown by the records and reports received by the management, and whatever remedy is called for may be applied. This is scientific management, based on organized knowledge, as all science is based.

Anyone who feels that such a cut-and-dried program takes all

the fun out of business by removing the chances and uncertainties is free to enter business on his own plan—or lack of plan—and get all the excitement he craves. But if he is in competition with a business that is scientifically managed, he will soon realize that he is up against real competition, intelligently directed because based on facts.

On the other hand, many businessmen derive a keen pleasure from making the effort necessary to meet a program that, though not easy, perhaps is yet attainable and well worth while. If the program is a rainbow, the pot of gold is at the end of it. There will be plenty of pebbles in the path, not to mention a few rocks, which will call forth the best effort from every individual.

WASTE NOT, WANT NOT

The control of expenditures has been described in Chapter IV. It may be well to supplement what is said there with a brief comment or two on the elimination and control of waste—"the little foxes, that spoil the vines."

A great deal depends on the organization's mental attitude toward waste, on the realization that the property of the company represents money, whether it is in the form of money, supplies, or equipment. For example, most employees of any business would scorn to steal even a few pennies from the cash drawer; that would be dishonest. But many of those same employees might not hesitate to help themselves to pencils, paper, even a postage stamp now and then. Nor do the majority of employees think twice about throwing away a half-used pencil, a pad of paper that is not being used at the time, a paste jar when it is empty, or the clips on the sheets of paper just tossed into the wastebasket. Not all disregard of values is so reckless as was the case in one office where the janitor, in emptying the wastebaskets, found two numbering machines, worth about \$20 each. Inquiry showed that the wastebasket was taken from the cashier's cage, where two young women readily admitted that they had thrown away the numbering machines. "We didn't need them any more," they explained, candidly.

Make Employees Waste-conscious. It is too much to expect that employees will become waste-conscious of their own accord. Direction and stimulation are necessary, as well as a good example

A Program of Management Research for Administration and Control

I. General Survey of the Business

- A. Over-all examination of the policies and practices of the business
 - 1. To determine the possibilities for
 - a. Increased profits
 - b. Decreased costs
 - c. Improved control and so on
 - 2. To include
 - a. Functions of
 - (1) Production
 - (2) Merchandising
 - (3) Sales
 - b. Personnel
 - c. Organization
 - d. Administration
 - 3. To discover the most fertile fields for improvement
 - 4. To indicate the means of coordinating the various functions and activities

II. Management Policies

- A. Analysis of
 - 1. Existing management policies
 - 2. Results secured under them
- B. Suggestions for bringing policies in line with changing needs and conditions

III. Office Methods and Accounting

- A. Analysis of
 - 1. Operations
 - 2. Systems
 - 3. Procedures
- B. Suggestions for
 - 1. Simplification
 - 2. Elimination of waste
 - 3. Reduction in time
 - 4. Introduction of mechanical devices
 - 5. Standardization
 - 6. Improving control of
 - a. Operations
 - b. Accounting
 - c. Costs
- C. Preparation of written standard practice instructions and manuals

IV. Organization and Reorganization

- A. Creating or improving the basic structure of the business so as to
 - 1. Assign and distribute properly on all levels of importance
 - a. Duties

- b. Responsibilities*
- c. Authorities*
- 2. Distinguish functions and services**
- 3. Coordinate activities**
- 4. Establish control while releasing initiative**
- 5. Free major executives from routine burdens**
- B. Preparation of organization charts and manuals**
- V. Office Layout and Equipment**
 - A. Planning office space to meet present and future requirements of the work**
 - B. Utilizing space for expediting flow of work by advantageous arrangement of**
 - 1. Departments**
 - 2. Offices**
 - 3. Furniture**
 - 4. Equipment**
 - C. Considering such special factors as**
 - 1. Illumination**
 - 2. Ventilation**
 - 3. Noise reduction**
 - 4. Electrical requirements**
 - 5. Intercommunication**
 - D. Preparing detailed floor plans**
- VI. Planning New Office Buildings**
 - A. Ascertaining needs**
 - 1. Organization**
 - 2. Operating**
 - B. Adapting building plans to meet present and future space requirements**
 - C. Consideration of the problems**
 - 1. Selection of plant and office location**
 - 2. Selection of architect**
 - 3. Determining size and general design of the building**
 - 4. Ascertaining departmental space requirements and locations**
 - 5. Determining extent and location of service facilities**
 - 6. Partitioning**
 - 7. Underfloor ducts**
 - 8. Illumination, ventilation, noise reduction**
 - 9. Floor covering**
 - 10. Mechanical and electrical communication**
 - 11. Departmental layouts**
 - 12. Selection of suitable furniture and equipment**
 - 13. Preparation of detailed floor plans**
 - 14. Arrangements for moving from one location to the other**
- VII. Job Analysis, Salary and Pension Administration**
 - A. Determining for all jobs**
 - 1. Duties and working conditions**
 - 2. Qualifications necessary for successful performance**
 - 3. Grading and classification**
 - 4. Assignment of correct salary ranges**

- B Tracing departmental and interdepartmental lines of promotion
- C Establishing sound plan of compensation
 - 1 Based on fairness
 - 2 Resulting in reasonable payroll costs
 - 3 Providing incentive to employees
- D Designing pension plan to
 - 1 Integrate with the compensation plan in effect
 - 2 Ensure practical operation and future safety

VIII Personnel

- A Establishing sound personnel policies and practices
 - 1 Selection of employees
 - 2 Training of employees
 - 3 Promotion of employees
 - 4 Welfare of employees
 - 5 Remuneration of employees
- B Devising and installing
 - 1 Employee tests
 - 2 Rating plans
 - 3 Training courses
 - 4 Incentives
 - 5 Records
 - 6 Other phases

IX Executive Compensation

- A Determining
 - 1 Proper compensation of executives
 - 2 Measure of executive accomplishment
 - 3 Evaluation of length of service and other pertinent factors
- B Developing a promotion plan
- C Constructing plans
 - 1 Profit sharing
 - 2 Bonus distribution
 - 3 Stock ownership and so on

X Budgetary and Statistical Control

- A Preparing operating budgets to
 - 1 Coordinate sales production and other activities
 - 2 Keep departmental costs within control
 - 3 Fix responsibility
 - 4 Secure cooperation in striving for lower unit costs
- B Providing maximum information and control with minimum effort by
 - 1 Reports
 - 2 Charts
 - 3 Statistics

(Adapted from 'Net Results' published by H. A. Hopf and Company,
Management Engineers)

on the part of the management. The sin of American business is waste, whether of time, money, materials, or supplies. Waste and extravagance (which is merely a form of waste) are so obvious and manifest as to reflect lack of prudence on the part of the management; or perhaps it is indifference; it may be ignorance. Whatever it is, the failure to curb it is unjustifiable. Any management engineer can put his finger on fifty places where money can be saved, not at the expense of the business nor of the employees, but merely by reducing waste.

Perhaps it will help to examine some of the forms of waste found in almost every organization.

Everybody Condemns These. There are certain glaring wastes that are inexcusable: (1) placing on the payroll employees who are not needed; (2) buying services that do not contribute to the effective operation of the business; and (3) paying more for physical features than the business warrants, often for the sake of appearances, and frequently at the expense of other items that would contribute more to the concern's well-being. As someone has wisely said, "It isn't keeping up with the Joneses that causes the trouble; it is trying to pass them on a curve."

Other Wastes Not So Obvious. Everybody will admit the indefensibility of the items mentioned in the preceding paragraph and will condemn their continuance, even if nothing is done about them. But there are other items, not so conspicuous, that deserve attention. A report of the National Office Management Association² lists 176 places—just in offices—where waste may be eliminated.

Much waste can be prevented by control over the procurement and use of materials, equipment, and services for which money is being spent. Standard specifications should be provided for all materials and supplies used. These items should be packaged in easily dispensable quantities and their use supervised and checked to prevent waste. Equipment should be used with care and kept in first-class condition. Dirt and the improper operation of a machine will shorten its life considerably.

Why Abuse Services? There should be no waste of services. Certain utilities are so handy that it is easy to abuse their very

² *NOMA Forum*, Vol. XVII, No. 3, pp. 3-17, 21-26. Reprinted by permission in Leffingwell, W. H., and Robinson, E. M., *Textbook of Office Management*, Chapter 27. McGraw-Hill Book Company, Inc., New York, 1950.

convenience. The telephone is probably the outstanding example. It may be abused in three ways: (1) by personal calls, (2) by inefficient use for company business, and (3) by unnecessary and extended toll calls. When the toll calls of one industrial company amount to nearly a million dollars a year, the moneysaving possibilities are immediately apparent.

The waste of electricity is appalling. Lights left burning, fans left running, machine motors not switched off, and so on, all contribute to unnecessary expense—waste.

The Greatest Waste of All. Finally, there is the enormous waste of human effort. Thousands of employees are doing unnecessary work. Thousands more are doing necessary work inefficiently. If the principles, methods, and suggestions presented in this book lead to better management, many of these human wastes will be eliminated. But a conscious effort must be exerted by the management, which must abhor waste in any form—visible or invisible—and which must get the habit or state of mind that will constantly measure results against costs. Good management endeavors to eliminate waste wherever it is found, whether in high or in low places.

QUESTIONS FOR REVIEW AND DISCUSSION

1. Explain this statement: "No business runs itself, even on momentum."
2. What are the five functions of administration and management?
3. Name six elements of control.
4. What must the manager do to bring about control?
5. "The manager must have his lines of communication established, open, and working." Why?
6. The first principle of management is "determine your objective." Explain how an army general would apply this principle to his operations.
7. Explain the traditional approach to the problem of planning operations for the coming year or business period.
8. Explain the scientific method of approach to the problem of planning operations for the coming year or business period.
9. What is the advantage of the scientific approach over the traditional one? Under which plan would you prefer to work? Why?
10. On what does intelligent control depend?

11. Whose function is it to collect and present necessary information about the business to the management? Why?
12. What information does the management need? Why?
13. What does the management's plan show?
14. How can a wholesale clothier analyze the market for his product in any given locality? What information would he get, and what would he do with it?
15. What is the advantage of such a plan to the manufacturing department?
16. What is the advantage of such a plan to everybody in the organization?
17. Does a cut-and-dried program take all the fun out of business? Why or why not?
18. On what does the elimination and control of waste largely depend? Why?
19. Explain this statement: "It is too much to expect that employees will become waste-conscious of their own accord."
20. Why can any management engineer put his finger on fifty places where money can be saved merely by reducing waste?
21. Three inexcusable and glaring wastes are mentioned. Explain what they are, and why they are both inexcusable and glaring.
22. How may the waste of materials be lessened?
23. How may the waste of service be lessened?
24. Explain this statement: "There is an enormous waste of human effort in business."
25. Why should a conscious effort to reduce waste be exerted by the management?

TOPICS FOR RESEARCH

In all these cases, it will help if the student begins his report by explaining what is meant by control of the particular item indicated in the assignment.

1. What information does a sales manager need to control the work of his salesmen? Give your reasons for each kind.
2. What information does a credit manager need to control the work of the credit department? Give your reasons for each kind.
3. What information does a purchasing agent need to control the work of his department? Give your reasons.
4. What information does a traffic manager need to control the work of his department? Give your reasons.

5. What information does the supervisor of any group need to control the work of his group? Give your reasons.
6. What information does a company treasurer need to control the expenditure of money? Give your reasons.
7. What information does the president of a company need to control the operation of the company? Give your reasons.
8. What information does the board of directors of a corporation need to control the affairs of the corporation? Give your reasons.
9. In the first five assignments above, the questions concern control of the *work*. What else might the executive desire to control? Explain how he would do this in each case. Give your reasons.

PROBLEMS

1. In May, 1934, a buyer from a shoe factory went to buy twill to be used in the making of shoe lining. He was told that when the processing tax bill was passed he would not have to pay a floor tax on the twill. He received the twill late in May and started to use it immediately. About five months later, he was approached by Federal agents who asked him how much twill he had on hand on June 1. After stating an approximate amount, he was told that he would have to pay a floor tax on that amount of twill plus a fine of one-half the tax for not filing a report of the twill. This was the first time that anyone had mentioned a report to the buyer. What should the manager have done? Give your reasons.
2. If the sales manager and the credit manager get into an argument, what method would be best to settle it? What might cause such a conflict? What results might come out of it?
3. How can a businessman make sure that his plant is in presentable condition, the processes hygienically right, the usual ingredients and flavors of the product the best possible, the cases in clean painted condition with no protruding nails or loose metal straps, the cartons clean and attractive, the labels of good and pleasing design, the trucks spick and span, with signs on their sides?
4. A large downtown department store opened a cafeteria for customers and employees. After a few months of operation it has shown a decided loss. What should be done? Give your reasons.
5. During the past four years, the cost of operating a certain department store has increased to such an extent that the net profit has been greatly reduced. The board of directors believes that this increase in costs is due largely to poor control of the sales force. For example, a buyer may think it necessary to hire an extra sales-

clerk for his department; later, he finds that there is little need for her except during rush hours.

The head of the statistical department believes that the sales expenses could be controlled if the right kind of statistical data were obtained. He believes that the store managers should know how much each clerk has sold each day.

The store managers, however, think that this would result in unfair comparison between salesclerks, as one clerk may secure a customer who spends \$50 or \$100, while another may be engaged for the same length of time with a customer whose purchases total only 75 cents.

The statistical manager replies that the number of customers a clerk waits on in a day would be a fair test, since that information would show which clerks make an effort to sell to customers as soon as they enter the store and which are less attentive to their duties.

One of the department heads says that, if the average sale was determined for each department and for each salesclerk, it would be possible to decide how many salespeople are needed and the kind of merchandise to purchase. That is, if the average sale is low, more sales must be made than if the average sale were high, and that would necessitate more salesclerks.

- a. What is the situation that has arisen in this department store?
- b. Why is that situation serious?
- c. What is each of the executives mentioned trying to do about it?
- d. What is the opinion of the board of directors?
- e. What is the general opinion of the head of the statistical department? What advantage would result, if any?
- f. What is the objection of the store managers to the statistical manager's proposal? What do you think of it?
- g. What record does the statistical manager suggest as a fair test?
- h. What is the suggestion of one of the department heads? Do you think his proposal is sound?
- i. How would these various kinds of information be obtained?
- j. Would more clerks be needed to record the information? Why or why not?
- k. If more clerks were needed, would the added expense be offset by the value of the information obtained? Why or why not?
6. On separate sheets of paper, write two problems that might arise in connection with some business in which you may be interested, or with one of the businesses listed below. It is hoped that you will select problems in which you are genuinely interested. The sug-

gestions give you a wide range of choice. Bring these two problems to the next meeting of the class.

- a. What management problems might arise in connection with the functions or departments listed below, or any other function or department you wish to name?
- b. What problems of control might arise in connection with these functions or departments?

Sales	Advertising	Accounting
Office	Purchasing	Financial
Credit	Storekeeping	Statistical
Traffic	Production	

- c. What are some of the problems of the following businesses, or any others you wish to name?

Retail stores	Hotels	Banks
Laundries	Restaurants	Insurance companies
Cleaners	Garages	Public utilities
Wholesalers		

CHAPTER X

Organization for Accounting

The recording function of the accounting department is subsidiary to its main function of keeping the management informed about the operations of the business by collecting pertinent information and presenting it to those responsible for the successful conduct of the business. In this respect, the accountant is really a historian, making available for immediate or future reference the facts about the business. Since accurate and timely records of business transactions are a sound basis for business judgment, the accounting department is one of the most interesting and important departments of every business, whether large or small.

ACCOUNTING INFORMATION IS VITAL

The records kept in the accounting department show (1) how much money is received and paid out, (2) who owes money to the company, (3) those to whom the company owes money, (4) how much business the company is doing this year compared with last, (5) this month compared with last month, and (6) the cost of doing that business. From these records, reports for the manager are prepared and so arranged that he can see at a glance whether the business is going forward or backward, whether a department is doing especially well or poorly, and the profits or losses for any given period. In this way, the manager can see the weak spots and take steps to strengthen them at once. The accounting department also prepares reports for department heads, showing them what their departments are doing and the cost. Thus each department head can check the progress of his department.

HOW THE ACCOUNTING DEPARTMENT IS ORGANIZED

The accompanying chart shows how the detailed work of the accounting department is divided. There are three main divisions: (1) purchase accounts, (2) sales accounts, and (3) financial entries. Examine the chart and follow closely each division as it is broken down into subdivisions.

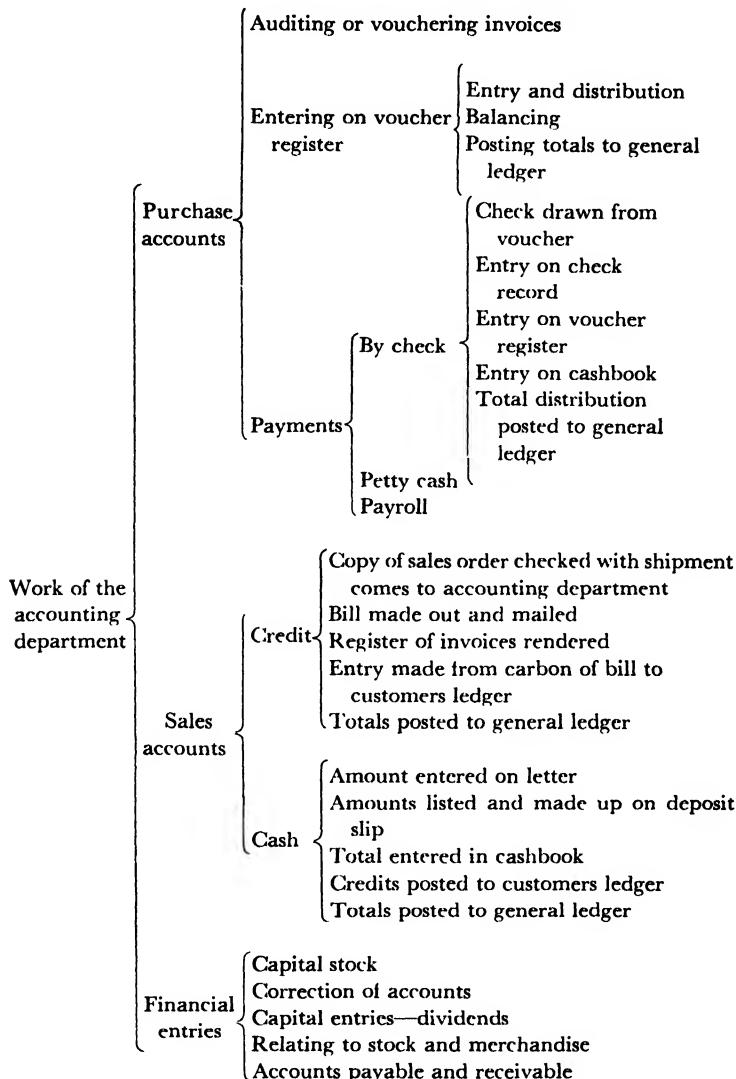
In charge of the accounting department is the chief accountant, who is responsible to one of four persons, depending on the company concerned. In some offices, the chief accountant is under the office manager; in others, the office manager himself may act as chief accountant, or vice versa. In some concerns, the chief accountant may be responsible to the controller or the treasurer. Sometimes, the secretary of the corporation is responsible for the accounting.

The number of employees in the accounting department depends, of course, on the size of the company and the volume of business. In a small business, one person, perhaps a stenographer or secretary, may handle all the bookkeeping in addition to her other duties. On the other hand, a large corporation may have hundreds of employees in its accounting department, some in branch offices throughout the United States or even the world. In such a concern, each person in the department is likely to handle only one type of work. For example, an entry clerk may handle only the accounts of customers in New York City whose names begin with S; another clerk may spend his entire time sorting copies of invoices and other items to be entered in the books. One may spend each day hunting for errors and correcting them; another may check vouchers all day long.

THE DIFFERENCE BETWEEN BOOKKEEPING AND ACCOUNTING

Keeping the records of transactions usually is termed *bookkeeping*. *Accounting* means both keeping the records and interpreting them through reports—that is, accounting for the results of the business operations. All modern bookkeeping is based on the ledger, a book in which every transaction of the business is entered and classified according to its nature and significance. Since

The Work of the Accounting Department



all items of the same kind are on the same page, each page in the ledger tells its story. To the credit manager, the ledger tells how each customer handles his account with the company. The auditor or chief accountant, on the other hand, is concerned with the

correctness and completeness of the entries and, in addition, with the neatness and appearance of the books.

PURCHASE INVOICES AND SALES INVOICES

When goods are sold to a customer, a bill is made out showing the quantities, prices, and terms of payment. It is called a *sales invoice*, because it shows what was sold to the customer. When the customer receives this bill, he calls it a *purchase invoice*, because it shows him the quantities, prices, and terms of payment of the items that he purchased. In other words, the seller's sales invoices are the customer's purchase invoices. The two routines for handling these invoices sometimes are called the *sales invoice routine* and *purchase invoice routine*, and sometimes the *accounts receivable routine* and *accounts payable routine*. Let us look at the accounts payable routine first.

ACCOUNTS PAYABLE ROUTINE

When the purchase invoice is received, it is checked to make sure that the correct price has been charged, the arithmetic is accurate, the goods have been received, and the quantity and quality are as ordered. Then the invoice is approved for payment and sent to the bookkeeper, who enters the details of the purchase in the *accounts payable ledger*.

The bookkeeper then enters the invoice on the *voucher register*, which may be a large sheet showing the following information about all purchase invoices.

1. Date of invoice	5. Terms
2. Date payment is due	6. Amount of discount allowed
3. Amount due	7. Distribution
4. Name of supplier	

Distribution, as used here, shows which department ordered the goods. Frequently, numerals are used to designate the departments; for example, the credit department might be 65, the sales department 32. When the invoice is paid, the date and number of the check also are entered on the voucher register. If the firm has more than one bank on which it draws checks, the name of the bank on which the check is drawn is also shown.

ACCOUNTS RECEIVABLE ROUTINE

At least two copies of sales invoices are made, sometimes more. The original is sent to the customer. The duplicate is sent to the accounting department, where the bookkeeper posts the item to the customer's account in the *accounts receivable ledger*, often

Name	<i>M K Custom</i>					
Address	<i>516 Fifth Avenue, City</i>					
DATE	EXPLANATION		POST REF	DEBIT	CREDIT	BALANCE
Apr 1	<i>n/30</i>		\$1	25-		25-
16	<i>n/30</i>		\$1	50		75-
18	<i>Returned merchandise</i>		01		15	72-
May 9	<i>Cash</i>		(X)		72	00
23	<i>2/10, n/30</i>		\$2	30		30.00
18	<i>Cash</i>		CR 5		30.00	00

ACCOUNTS RECEIVABLE LEDGER CARD							
NAME		M K CUSTOM					
ADDRESS		516 FIFTH AVENUE					
CITY		CITY					
TYPE FOR IPC →							
OLD BALANCE	DATE	INVOICE NUMBER	DESCRIPTION	QTY	UNIT PRICE	AMOUNT	CHARGES
★ 00	APR 1 92	S1	N/30			25 00	25 00 ★
★ 25 00	APR 26 92	S1	N/30			50 00	75 00 ★
★ 75 00	APR 28 92	J1	RETD MOSE			3 00	72 00 ★
★ 72 00	MAY 9 92	CR5	CASH			72 00	00 ★
★ 00	MA 23 92	S2	2/10 N/30			300 00	300 00 ★
★ 300 00	MAY 28 92	CR5	CASH			300 00	00 ★

Courtesy Underwood Elliott Fisher Company

For comparison, here are ledger pages posted by hand and by machine. With the machine, carbon copies and statements may be made at one writing.

called the *customer's ledger*. Posting means entering the date, a brief description of the goods (perhaps simply the abbreviation MDSE), and the amount of the sale. After posting, the duplicate invoices may be filed by date or by number with other sales invoices posted that day.

A relatively recent development, photographing business documents on microfilm, can be used in the handling of sales invoices instead of posting to the accounts receivable ledger. The special

equipment for this purpose photographs at a rate of speed in excess of 125 a minute. Although the number of business concerns that follow this practice is constantly increasing, there are still thousands of businesses that use the posting method described above. Retail stores find the microfilming method especially economical, since it photographs the sales slip itself, thus preserving copies of original records, but requiring little filing and storage space.

HOW CUSTOMERS' PAYMENTS ARE HANDLED

When the customer pays the invoice, he usually sends with his remittance either the invoice itself or some memorandum that shows the reason for the payment. The cashier enters the amount in the cashbook and deposits the money in the bank. The re-

SALESMAN'S COPY				
SHIPPING ORDER				
OFFICE SALES ORDER				
ACCOUNTING DEPARTMENT COPY				
UNITED PRODUCTS CORPORATION				
500 Madison Ave. New York 22, New York				
Customer Order No. & Date Requisition No. Contract No.	3-19			
	Invoice Date MAR 20			
	Vendor's No.			
<ul style="list-style-type: none"> • ACME SWEET SHOP • BURROUGHSVILLE, OHIO 				
Shipped to & Destination Date Shipped Car Initials & No. How Shipped and Route Terms	From F.O.B. Prepaid or Collect COLLECT Salesman PARKER 3-20 HASTINGS EXP 25-10 DAYS			
QUANTITY	DESCRIPTION	UNIT PRICE	GROSS	NET
40 LBS	TRIPLE X CHOCOLATES	37	14.80	
75 LBS	ASSORTED GUM DROPS	22½	16.88	
25 LBS	PRINCESS MARSHMALLOWS	39	9.75	
20 BXS	CHOCO BARS	65	13.00	
15 BXS	BUSTER POPS	80	12.00	
80 LBS	PEANUT BRITTLE	16	12.80	79.23

Courtesy Burroughs Adding Machine Company

This invoice shows the purchaser what he bought, the prices, and terms. It tells the whole story.

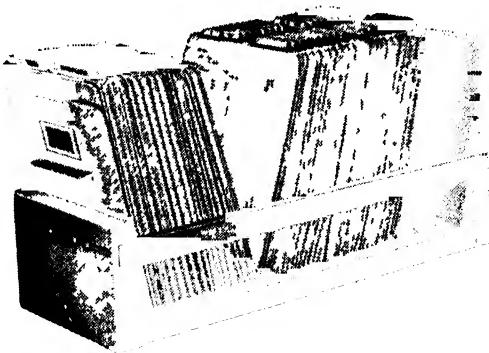
turned invoice or memorandum is given to the bookkeeper, who posts the amount to the customer's account in the customers ledger, then files the invoice with others posted that day.

EVIDENCE OF GOODS RETURNED FOR CREDIT

If a customer returns some goods for credit and the return is accepted, a credit memorandum is made out. One copy is sent to the customer, another to the bookkeeper, and a third to the files. Some companies also send a copy to the salesman to show

Courtesy Shaw-Walker

In this tray, ledger sheets can be located quickly and removed for posting to customers' accounts.



that his customer has returned some merchandise. The bookkeeper proceeds, as before, to enter the information in the customers ledger.

The *credit memorandum* is evidence that the goods were returned and credited to the customer's account. All credit memorandums should be approved by someone in authority before being sent to the customer and entered on the books.

MONTHLY STATEMENTS

At the end of the month, the bookkeeper copies on statement forms all the entries posted to each customer during that month. These statements of account are sent to each customer to show what he bought, what payments he made, and what he still owes.

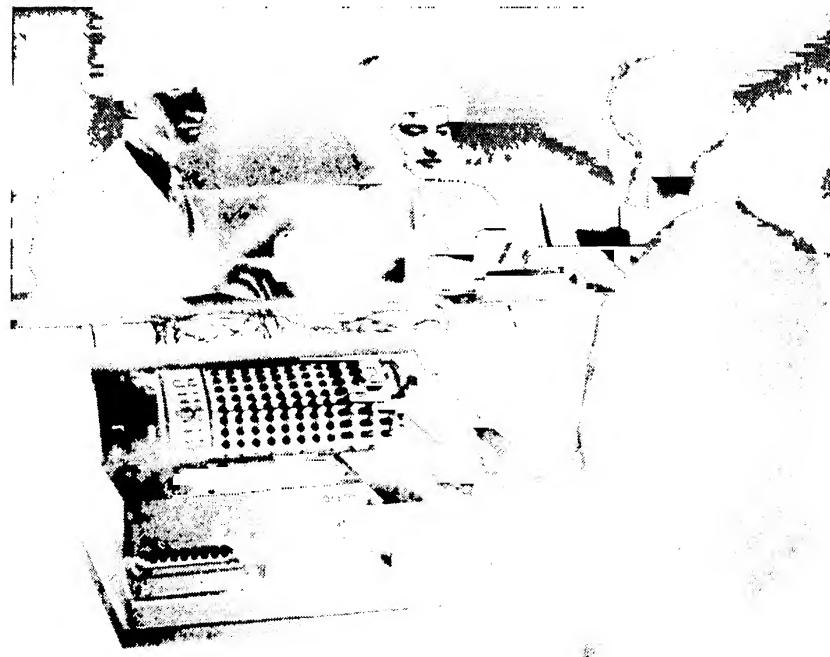
If a bookkeeping machine is used that keeps the statement up to date as each entry is made during the month, all that is necessary at the end of the month is to tear out the statement and to mail it to the customer.

It is not necessary to send monthly statements, and some customers request that it not be done. Other customers like to check

NAME	Richard C. Falcon			ACCOUNT NUMBER 2526
	ADDRESS	2715 Broadmoor Pl.		
A JUL-5 50		*500.00		
1 JUL14 50		*25.00		
2 AUG20 50		*15.00		
3 SEP-5 50		*50.00		
4 OCT-1 50		*		
5 OCT18 50		*17.50		
6 OCT26 50		*43.13		
7 NOV-9 50	*125.00			
8 DECE15 50		*20.00		
9 JAN-1 51		*		
10 JAN29 51		*453.98		
11 FEB13 51		*15.00		

In Acct With Richard C. Falcon Acct No 2526

	DATE	WITHDRAWAL	DEPOSIT	INTEREST	BALANCE
A	JUL-5 50		*500.00		*500.00
1	JUL14 50		*25.00		*525.00
2	AUG20 50		*15.00		*540.00
3	SEP-5 50		*50.00		*590.00
4	OCT-1 50			*	*591.35
5	OCT26 50		*17.50		*608.85
6	NOV-9 50	*43.13			*651.98
7	DEC15 50	*125.00			*526.98
8					



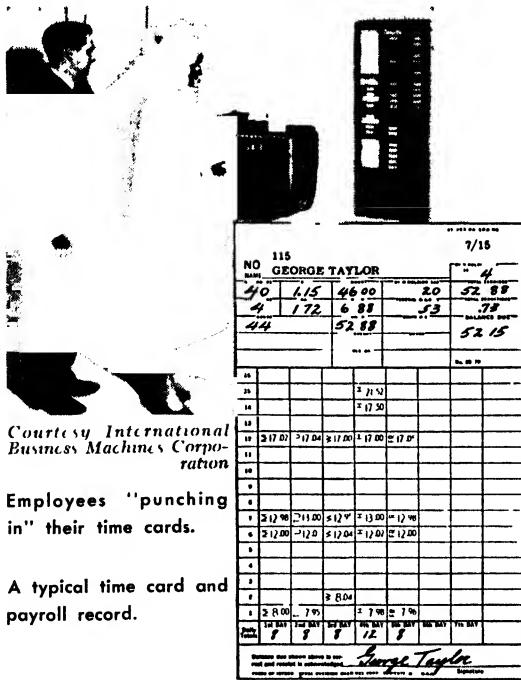
Courtesy National Cash Register Company

This machine computes balances and prints the entire transaction on the passbook and ledger card, all in one operation.

their invoices with the statement. Some concerns, on canvassing their customers, have learned that many are not interested in receiving statements.

THE PAYROLL

Another regular task of the accounting department is to make up the payroll. Since one of the largest costs in any business is the cost of help, it is necessary to keep records showing the work done by each employee and the salaries or wages paid.



In many business concerns, time recorders are used for recording on each employee's card the time of his arrival and departure, or the time spent on any special assignment. Other firms use books, cards, or sheets on which a timekeeper marks the time of arrival and departure. The payroll is made up from these records, which the timekeeper sends to the accounting department. The Federal Wage and Hour Administration prescribes what records must be kept and what methods of keeping them will show precisely and without question how much time each employee was present each day.

PRODUCTION COST CARD							
No. 43	NAME	<i>C Stinson</i>		DEPT.	12		
Form No. 515100	ORDER NO.	2142		MACHINE NO.	23		
PART NAME		<i>Connecting Rod</i>					
OPER. NAME		<i>Milling, sides</i>					
PIECES	P W RATE	AMOUNT	Finish	RATE	ELAPSED TIME	MAR 1	11.2
		2 94				Start	70
100						MAR 1	7.0
O. K.		<i>L Madison</i>					
		FOREMAN					

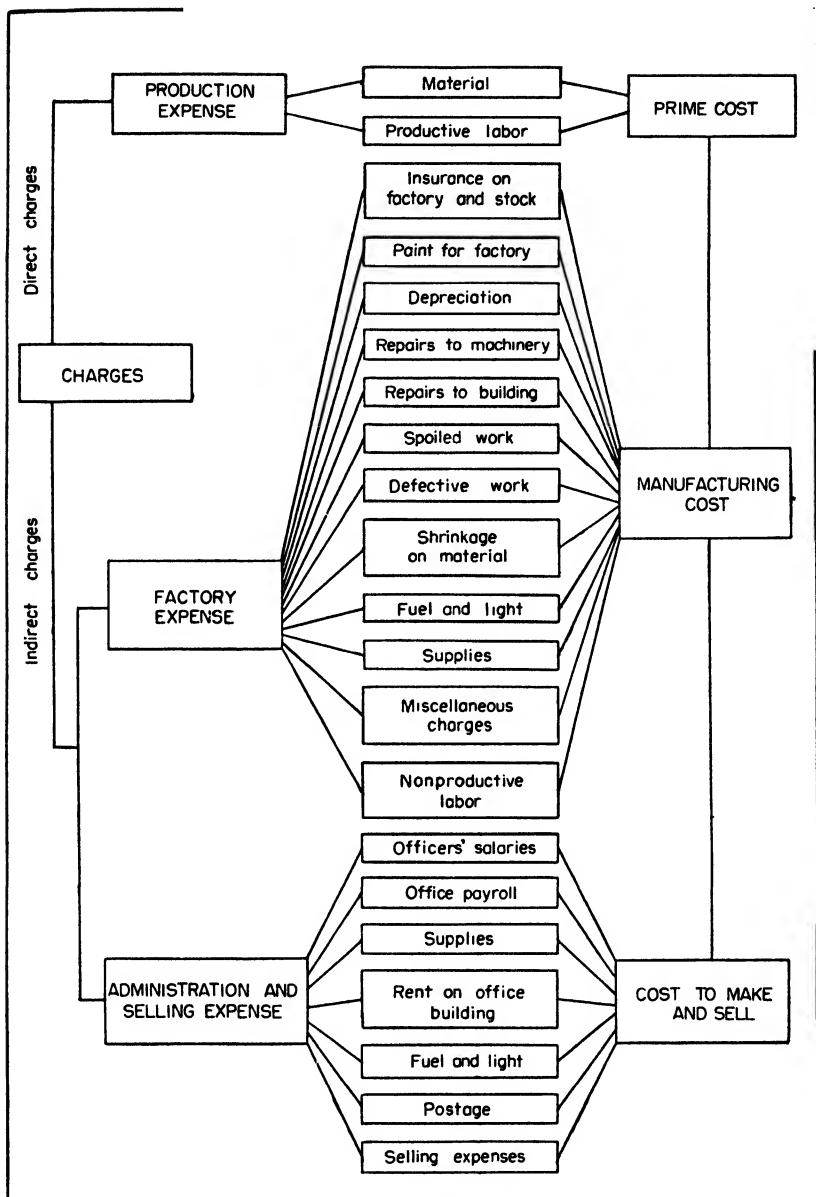
The time-clock stamp shows that the worker started the milling operation at 7 and finished 100 pieces at 11:12, taking 4.2 hours. The cost clerk then figures the labor cost and enters it on the card. Many concerns use punched cards to collect cost information.

COST ACCOUNTING

Another branch of accounting is cost accounting. This is not so much a method of bookkeeping as it is a method of keeping records of the cost of materials, labor, and overhead expenses that enter into the manufactured product. Cost records usually are handled in the accounting department, but in large concerns, there may be a separate department. Where this is the case, the costs are usually tied in with the general accounts by the accounting department.

THE CONTROLLER

The position of controller is one of the most important in a business concern, but to many persons it is a mysterious line of work. In a company that has a controller, he is the chief accounting officer. This means that he is responsible for all accounting records, wherever kept. He must set up all systems, change them when necessary, and see that all records are up to date. His responsibility includes the preparation of statistical reports of all kinds and usually their interpretation also. If the company has a budget, the controller has to prepare it and see that it is followed. In most concerns, no payment may be made until the controller



This chart shows why a good manager tries to keep costs down. Every rectangle represents money.

has approved it and made sure that the budget provides for it. The position is well paid, the salary ranging from \$5,000 to \$40,000.

THE AUDITOR

To err is human. "A person who never makes any mistakes never makes anything." Although a machine is expected to be accurate, it is too much to expect the operator of the machine to be equally perfect. Everyone makes a mistake sooner or later. It is the responsibility of the auditor to locate mistakes and correct them.



Courtesy Monroe Calculating Machine Company, Inc

The use of calculating machines increases the speed and accuracy of necessary computations in this auditing department.

Purpose of Auditing. When an accounting system is installed, it is well constructed, it covers all the activities of the company, and it is set up so that it will collect and bring to the manager the information he wants about the business. All the bookkeeping, accounting, and recording work is planned in accordance with that system. There are chances for honest mistakes and sometimes for dishonest ones.

The auditor examines the work at different points, now here, now there, to see if it is according to the system. In other words, auditing is comparing what is being done with the way it should be done. When the auditor finds mistakes, discrepancies, and

variations from the established system, it is his duty to find out who was responsible and to see that the errors are not repeated.

A Specimen Audit. Suppose the auditor is about to audit the work of the bookkeeper. He takes a sheaf of invoices or credit memorandums, for instance, from which the bookkeeper made



Courtesy Felt & Tarrant Manufacturing Company

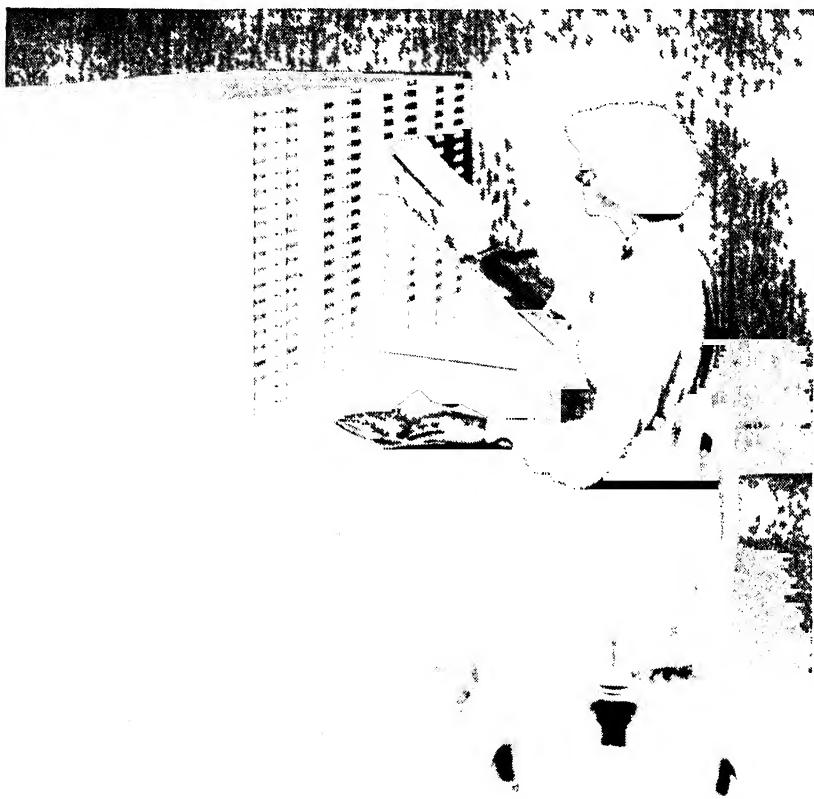
This Comptometer peg-board with adjustable line guide facilitates comparison and recapitulation of several columns of figures at a time.

his postings to the ledger. He examines each paper to see where it should have been entered. Then he looks up those accounts in the ledger to see if they were entered and posted correctly. Finally, he adds the accounts to see if the work is accurate. In the same way, he checks all the other work. The auditor has various methods of checking other people's work for both accuracy and honesty. He knows what to look for and where to look for it.

HOW THE MODERN LEDGER DEVELOPED

Formerly, all ledger accounts were kept in bound books—large volumes that took up a lot of room and were heavy to han-

dle Then loose sheets of paper for each account were found easier to use, since only the active accounts needed to be handled daily. The inactive accounts could be put aside. By punching holes in each sheet and placing the loose leaves between hard covers,



Courtesy Art Metal Construction Company

Visible records like these make it possible to make entries by hand easily and quickly. Reference also is facilitated.

security was obtained along with ease of use. Finally, the *visible loose-leaf binder* was devised, which shows the name of every account clearly.

Another way to keep the ledger accounts is on cards, which, being heavier than paper, can be stacked on edge in boxes or drawers. With cards, the elimination of inactive accounts is also possible, just as with the loose leaf systems. A hole or slot in the

bottom of the card provides room for a locking device in the box or drawer in which the cards are kept, thus giving security.

MACHINE BOOKKEEPING

Progress also has been made in methods of making entries on the cards or loose leaves. In bound ledgers, the only way entries could readily be made was in pen and ink. The introduction of cards made possible the use of rubber stamps for entries, but entries varied so much that the use of rubber stamps was limited. Next, the card was made thinner, so that it could be put in a typewriter. The next logical step was to put an adding mechanism on the typewriter; that was done. Then somebody invented a bookkeeping machine, made expressly for the purpose.

In its simplest form, the bookkeeping machine is a typewriter with an adding and subtracting mechanism. Its values lies in its ability to add and subtract items to and from a given figure, producing a balance figure that is mechanically accurate, provided the work was done correctly. Most bookkeeping machines have proof keys that cannot be depressed unless and until the work is accurate, thus providing an immediate checkup after each entry.

All that any bookkeeping machine can do is to make an entry on some record, usually a ledger of some kind, in such a way that the record shows what took place as well as the result of the transaction. A hand-posted and a machine-posted ledger sheet are illustrated at the beginning of this chapter. In machine posting, the bookkeeper types in the old balance shown on the ledger sheet; then the amount of the sale is typed (if it is an accounts receivable ledger). This is added mechanically to the old balance figure, the total showing in a dial on the machine. This total is typed in the new balance column, automatically clearing the machine for the next posting. Thus the customer's ledger sheet or card always shows what the customer has bought, paid for, or returned for credit, and in addition, the balance owing at any time.

There are now several different machines for making entries in ledgers. Regardless of the make, the main advantages of a bookkeeping machine are (1) making a correct legible entry, (2) showing at all times the balance of each ledger account, and (3) providing a proof of the entry.

For accounts receivable—that is, accounts with customers—some machines not only make the entries in the ledger, but also make them on the monthly statement at the same time. This saves the work of copying a large number of statements at the end of each month and speeds up materially the time required to get out the statements. This saving of time is important, as you will see in the study of credit and collection work.

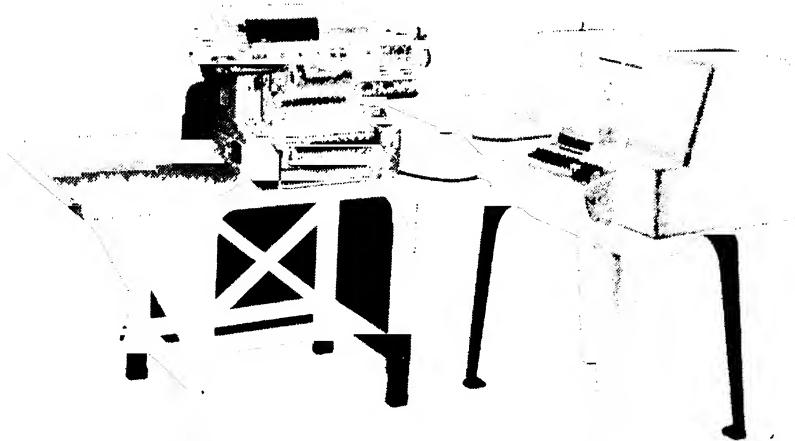


Courtesy Burroughs Adding Machine Company

Entries on bank ledger sheets are being posted by skilled operators using modern electrical bookkeeping machines.

There are also billing machines on which invoices can be made out. On one type of billing machine, as the invoice is typed, an electrical connection with another machine punches an analysis card, eliminating the separate operation of punching a tabulating card. These analysis cards are put in a third machine that sorts them and then computes the total of each item of information on the invoice.

After the day's billing is over, for example, the sales manager wants to know how much of each commodity was billed that day, the total billings, and how much was billed in each territory. This information may be obtained from the analysis cards in an incredibly short time by using sorting and tabulating machines.



Courtesy Remington Rand, Inc.

As each invoice is typed on the billing machine at the left, the machine at the right automatically punches a tabulating card, showing all the information on the invoice, thus facilitating the analysis of sales figures.

As a result of the extent to which modern laborsaving devices have been used in accounting and record keeping, it is now possible for a manager to have every morning all the details of his business for the previous day, so that he is always kept up to date concerning the state of the business. Formerly, a businessman considered himself fortunate if he could get a statement of the month's business by the tenth of the following month.

Thus, the use of loose-leaf and card-ledger systems has made possible the adoption of machine bookkeeping. Any number of clerks may work on the accounts at the same time, since each account may be kept entirely independent of others and be balanced, removed, or filed conveniently.

Loose-leaf and card-index systems also permit the arrangement of accounts in any desired order and, by transferring balanced or closed accounts, facilitate the insertion of sheets for new accounts without the expense of opening new books.

QUESTIONS FOR REVIEW AND DISCUSSION

1. What is the main function of the accounting department?
2. Why is the recording function of the accounting department subsidiary to the main function?

3. Explain the statement that an accountant is really a historian.
4. What do the records kept in the accounting department show?
5. Who is in charge of the accounting department?
6. On what does the number of employees in the accounting department depend?
7. What is the difference between accounting and bookkeeping?
8. Why is the ledger important?
9. Distinguish between the purchase invoice and the sales invoice as to characteristics, purposes, and handling.
10. How are customers' remittances handled?
11. What is the purpose of credit memorandums, and how are they handled?
12. Why are monthly statements sent to customers? Do you think it is necessary? Why or why not? What is a monthly statement?
13. Describe how the payroll is made up.
14. What is cost accounting?
15. Explain the work of a controller.
16. Explain the work of an auditor.
17. Trace the developments that led to the introduction of machine bookkeeping.
18. What are the three main advantages of a bookkeeping machine?
19. What is the advantage, if any, of the combined billing and tabulating mechanisms described in the text?

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees. In making these reports, always keep in mind the purpose of accounting.

1. Visit a department store, and ask to see the accounting department. Make a list of the kinds of work that are being done there, and find out the purpose of each.
2. Do the same for a manufacturing concern.
3. Do the same for a bank.
4. Do the same for an insurance company.
5. On the basis of the reports presented under topics 1 to 4, compare the accounting work of two different businesses with respect to the work done and its purpose.
6. Compare the payroll procedures of five different companies, and find out the reasons for each step and also for any variations in the methods of the different companies.

PROBLEMS

1. For the past five years during which a certain retail store has been operating, it has realized a small profit each year. A study of the financial statements, however, shows that each year a substantial sum has been charged off because of stock becoming obsolete. If these charge-offs could be eliminated, a respectable increase in profit could be realized. Why has this stock become obsolete, and what may be done to eliminate the charge-offs?
2. The owner of a small retail store has quite a little bookkeeping to do, which takes all day on Sunday. How can he arrange to complete the bookkeeping during the weekdays?
3. A community merchant sent in this inquiry, "I seem to be doing a fairly good amount of business. In fact, I have a monopoly in our small town. Profits, however, are practically nothing. I do not think I am charging enough for my goods. How can I determine my costs?" What suggestions can you give this man? Give your reasons.
4. How may a controller make sure that he has on hand the information that department heads and other executives may desire?
5. What method would you suggest whereby any considerable variance from the budgetary figures would be brought to the immediate attention of the controller?
6. In a country club, vouchers are made out and signed by the members when purchasing meals or playing golf, whether their account is to be charged for the service or whether they pay cash when they receive the service. The problem is to find some means of preventing an employee who receives cash from destroying the cash vouchers and keeping the money. What suggestions would you make, and how effective do you think your suggestions would be? Give your reasons.

CHAPTER XI

Organization for Sales and Advertising

Selling is a fascinating field for anyone who likes to meet people and help them to buy what they need. Many buyers depend on the salesmen who call on them to keep them informed of the latest developments in their particular lines. Like all other workers, salesmen need to be trained, coached, directed, and supervised so that their efforts are coordinated and effective.

In nearly all concerns, there is a sales department. The accompanying chart shows the duties of the sales and advertising departments, which must work closely together. In some concerns, of course, there is more of one kind of work and less of another. A mail-order house, for example, selling from its catalogue or through circular letters, would have no salesmen, but it would have a sizable office force. Some concerns might not sell by mail at all, but only through salesmen.

THE EXECUTIVE RESPONSIBLE FOR SALES

Usually, one man is in charge of all sales work. He may be called the sales manager, director of sales, director of marketing, vice-president in charge of sales, or any other title that may or may not indicate the holder's responsibility for sales. Although the advertising manager, if there is one, is frequently responsible to the sales manager, in some concerns they are equal. This is particularly true in large department stores, where the man responsible for sales is known as the merchandise manager, and the man responsible for advertising as the publicity manager. The merchandise manager is also responsible for buying the goods that

The Work of the Sales and Advertising Departments

Work of the sales and advertising departments	Advertising and sales promotion	Stimulating sales Writing copy Scheduling insertions Checking rates Handling inquiries Preparing dealer helps Editing house organs Recording results		
	Directing salesmen	Routing salesmen Keeping salesmen informed through Checking salesmen's reports	Bulletins Instructions Names of prospects Follow-ups	
	Directing branch managers who sell through	Salesmen who call on dealers and consumers Authorized agents Personal contact with large accounts		
	Selling by mail	Writing sales letters Circularizing prospects Preparing catalogue Writing copy for circulars and booklets	Addressing Duplicating Mailing lists Follow-up	
	Office work of the sales department (chief clerk)	Stenographic work Filing Mail General office work	Incoming mail Outgoing mail Forwarding salesmen's mail Intraoffice mail Messengers	
	Handling sales orders	Entry of order Distribution of copies Follow-up on orders	Orders received Recorded on order register Checked by interpreter Acknowledgment sent Manifold copies made out Checked with order register	For permanent record To stock room For acknowledgment To shipping room To sales department For invoice
	Statistical work		Tickler file Back ordering Suspense file	Tabulating sales Tabulating sales expense Preparing charts Analyzing results

are to be sold, while the publicity manager has to look after window displays and all other forms of publicity, as well as the day-to-day advertising. Advertising appropriations run from the cost of a small advertisement into millions of dollars, covering full pages of newspapers and national magazines and requiring careful preparation, for all of which the advertising manager is responsible.

Of all the departments in any business, the sales department is obviously the most important. When times are good and orders come easily, there is commonly a disposition on the part of some people to decry the value of the work done by the salesmen.

"After all," says the factory man, "if the manufacturing department didn't make a good product, you couldn't sell it. Therefore, the manufacturing department is the most important, since the reputation of the company for quality goods is in our hands."

"That may be so," argues the credit man, "but if the credit department didn't collect the money that is due and owing, there wouldn't be any money to pay your salaries. Therefore, the credit department is the most important."

Then the salesman replies, "I'll admit that if the manufacturing department didn't make a good product, I couldn't sell it; and I'll also agree that we couldn't get along without the money that the credit department collects. But did it ever occur to you fellows that you wouldn't have any jobs at all if I didn't go out and bring in the business?"

The salesman is right. The only way that a business can sustain itself year in and year out is by making sales and collecting the money from those sales.

GOOD SALESMEN RECEIVE GOOD PAY

Since the purpose of the sales department is to get business, it would seem obvious that the people who get the business—that is, the salesmen—are important. Their importance is shown by the volume of business obtained and the salaries and commissions paid. In very large concerns, the orders secured by just one salesman may total over a million dollars, and his yearly commissions may amount to more than a hundred thousand dollars. Not all salesmen sell such large quantities or receive such large commissions. But since the salaries and commissions paid to salesmen

range from 5 to 50 per cent or more of the price of the goods, depending on the nature of the business, the money involved in the operation of the sales department is a considerable factor in the operation of any business.

The salesmen may travel from city to city; they may stay in one locality that they cover thoroughly; or they may sell in a store. The traveling salesmen call on their customers; in a store, the customers come to the salesmen. In any case, the object is to sell the product of the firm.

SALES ARE IMPORTANT

Someone has said: "Sales are the lifeblood of a business." Certainly, without sales—which means orders—a company could not continue in business very long; its continuance depends primarily on the orders that the sales department gets. During periods of depressed business conditions, the difficulty in getting orders—that is, finding buyers of the product or service—immediately shows the importance of the sales department. When business drops off, that is when sales decline, factories close, workers are laid off, and many firms go out of business. Only those concerns survive and keep going that can sell their goods. The others go out of business, or "wait until business conditions improve," meaning when their salesmen will find it easier to get orders.

Some concerns take advantage of depression periods to bring out new products or improve their present ones. Other concerns cut their prices in a frantic effort to get business. Whatever methods the successful concerns use, inquiry has shown that at any one time—good times or bad—there are always concerns somewhere that are having good business; that is, their sales departments are securing orders.

Most business concerns have a sales department in some form or other. Even a bank has its new business department. An investment banker has a loan department which locates people to whom money can be lent safely and persuades them to borrow money, perhaps for expansion, which may run into millions of dollars. When the loan has been arranged, the investment banker's salesmen sell to investors stocks or bonds representing the loan.

SELLING VERSUS ORDER TAKING

Although a business must sustain itself year in and year out by making sales and collecting the money from those sales, "making sales" does not mean merely "taking orders." It means locating more and more possible users of the product or service and persuading them to buy. Successful sales effort is continuous sales effort; no letdown is possible. As one corporation president said, "There is no room for complacency in a sales department. We must keep pushing, and pushing, and pushing." "Keeping everlastingly at it" is the way another sales manager stated the secret of sales success.

The successful salesman must be a born optimist, even though he may not be a born salesman. He should believe that his company's products are the best for their price.

In sales work, missionary effort is often necessary. This preparatory work of the sales department is also referred to as spade-work, similar in objective and hard work to the turning over of the earth in a garden before planting seed.

THREE ESSENTIAL FUNCTIONS OF SALES

Selling may be divided into three essential functions: (1) finding out what people want or need, (2) finding people who want or need it, and (3) getting orders from them. All three of these functions are concerned with people as potential customers of a firm's goods. All sales efforts start with the customer. Some authorities state that every consideration of business starts with the customer. "What does the customer want? Let's find out and give it to him." Any individual who plans to establish a business on any other basis will find his road uphill all the way. Why tackle it the hard way?

The first question is: "What human need exists that is not already satisfactorily supplied?" This question implies, not that a brand-new product must be found, but that, if present available products or services do not meet the customer's needs, perhaps an improved product or service will do so. More than one firmly established concern has been shaken out of its middle-aged complacency by discovering that its market has been invaded by a

competitor with a better product, an improved product, or a more satisfactory service.

Consider scouring powders as an example. Fifty years ago, the old stand-by of housewives for all-purpose cleaning was the scouring brick, of which Sapolio was probably the best-known and the most vigorously pushed. Aside from Bon Ami, probably no one can now recall any other scouring brick. A scouring brick has many good features, not the least of which is that it is economical. Wet a cloth, rub it on the brick, and wipe the surface to be cleaned!

Then came scouring powder. Bon Ami produced its scouring brick in powder form; Sapolio did not. Scouring powder will not clean a surface any quicker or better than a scouring brick, and it is more wasteful and less economical. But its convenience cannot be denied. "Sprinkle a little on the surface to be cleaned, wipe with a damp cloth, and take up clean." The shaker top makes it easy to use, and an attractive container looks much better than an unlovely dirty gray or white brick.

To realize the extent to which scouring powders have replaced scouring bricks, and to appreciate further how such a seemingly simple change from a brick to a powder can affect the market for a product, it may be confidently stated that probably no one who reads this statement ever heard of Sapolio before. But every homemaker is familiar with Bon Ami and many other scouring powders produced since that time. On the other hand, how many people know what a mixture of ten parts of whiting to one of trisodium phosphate is, and what it is used for?

CONTINUOUS SALES RESEARCH IS NECESSARY

To keep abreast of developments in both products and markets, many concerns maintain research bureaus. Professional researchers are available for concerns that do not wish to operate their own research departments. One purpose of sales research is to develop new products and improve old ones. Sometimes, a product is discovered that is so far ahead of the present market that its sale would be difficult without considerable expensive missionary work. The problem is whether to go ahead and promote it or to withhold it until the market is more nearly ready for it. A case

in point is the streamlined design of automobiles, which was ready years before it actually appeared.

Another problem for the research department is concerned with the design of a product. The fact that an article is efficient does not necessarily overcome the handicap of poor design or of unattractive appearance. Styles and trends in design must be considered before a product is ready for the market.

BREAKING INTO AN ESTABLISHED MARKET

An interesting illustration of a concern breaking into an established market is that of Lever Brothers' white floating soap Swan. The leading, in fact the only well-known, white floating soap was Ivory, brought out in the early 1890's by Procter and Gamble. Ivory soap was well advertised and had universal distribution. It was thoroughly entrenched. The only other white floating soap that had competed with it was Fairy, manufactured by the N. K. Fairbank Company. But Fairy soap had not been advertised for a long time, and its ownership eventually passed to Lever Brothers, who decided to put out a new white floating soap to compete with Ivory. When they were ready with the new soap, they began a vigorous advertising campaign, using all available mediums and seeing that all stores were well supplied, with the result that consumer acceptance of Swan was established almost overnight.

IS YOUR PRODUCT PATENTED?

The question of patent rights often enters into the consideration of new products. The safety razor business has two main products: the razor, which is actually only a blade holder, and the blades. The profit is in the blades, since the holder lasts indefinitely, while the blades do not. A certain razor and blade had international distribution. No other competitor—and there were many—seriously contested its pre-eminence. If any blade holder bore any resemblance to it, a lawsuit for infringement quickly took care of the pretender.

But the time was approaching when the patents would expire. Anticipating that time, the company redesigned its blade so that it would fit only the company's razor, which was also modified so that no other blade would fit it. Great preparations were made for putting the new combination on the market. The salesmen

An Approach to the Problem of Distribution

(Program for the Coming Period)

- I. Continue to sell the same volume of goods now sold, by
 - A. Retaining present customers
 1. Whose buying is steadily increasing
 2. Whose buying remains static
 3. Who are buying only part of the complete line
 4. Whose buying is falling off
 - B. Bringing back former customers
 1. Find out why they are not now buying
 - a. Analyze the reasons to determine what can be done about each reason, if anything
 - b. Consider methods necessary to bring them back
 - c. Apply the method called for
 - C. Getting new customers
 1. Analyze the market
 - a. Who are the logical customers?
 - b. Where are they?
 - c. Consider methods of reaching them (channels of distribution)
 - d. Apply the methods selected
 - e. Bring out possible new products
- II. Try to sell more goods, by considering C1a and C1c above
- III. Try to get a wider margin from the goods sold, by
 - A. Increasing the price (consider competition, quality, etc.)
 - B. Reducing costs
 1. Directly, by finding where saving can be made on
 - a. Material, by
 - (1) Using a substitute
 - (2) Using less material in the product
 - (3) Redesigning the product
 - b. Labor, by making it more efficient
 - c. Overhead and other expenses, by
 - (1) Analyzing them
 - (2) Cutting where possible
 2. Indirectly, by greater sales volume, which sometimes lowers costs
 - IV. Arrange to meet competition, as to
 - A. Quality
 - B. Price
 - C. Service
 - D. Terms
 - E. Product
 - V. Build a permanent working organization

and distributors were brought together in meetings. The advertising agencies demonstrated the new blade's fine points. A nation-wide advertising campaign was prepared and ready.

One week before the date set for the opening advertisement of the new blade, there appeared in *The Saturday Evening Post* a full-page advertisement of a new blade manufactured by another company. Across the face of the illustrated blade appeared the words, "Reg. U. S. Pat. Off." Five days later appeared full-page advertisements of the first company's razor and blade. Across the illustration of the blade appeared the words, "Patents Pending." A comparison of the two blades showed that the competing blade would fit the first company's new razor as readily as its own. The price was the same.

The second company eventually sued the first company for infringement of patent, whereupon that company's patent attorneys advised their clients to settle on the best terms they could get. The outcome was the purchase of the second company by the first for 20 million dollars. At a preliminary meeting, an executive of the first company asked why such a high price should be paid for a company with net assets of less than 7 million dollars. It is said that the reply was: "But, gentlemen, I have a patent on your product."

It is obvious that someone in the older company, possibly the person responsible for obtaining patents, was not on the job. No time should be lost in protecting a new product or a new design, if patentable or registrable. In this case, it was rumored that the competing blade patent had been offered to the older company a year before for one million dollars. If that is so, again someone slipped badly in not at least examining the patent on the competing blade.

DEVELOPING AND IMPROVING PRODUCTS

The lead pencil industry furnishes a number of interesting illustrations of product research. Up to 1915 or thereabouts, the standard pencil used in offices and by people generally was of wood, encasing a long thin cylinder of graphite compound. To be able to put a good point on a lead pencil was an art, not mastered by many, but envied by all.

To reduce the time required to sharpen lead pencils, mechani-

cal sharpeners were devised and put on the market. These varied from one that revolved the pencil against a sheet of sandpaper to others that used revolving knives. Some did a fairly satisfactory job; others splintered the wood and broke the lead so that a pencil did not last very long.

Refinements in pencil sharpeners aimed at three objectives: to accommodate varying sizes of pencils, to stop the sharpening automatically when the pencil was pointed, and to regulate the length and fineness of the point desired. A machine finally was devised that accomplished all three, but the price was so high that the makers could not sell many. It is now possible to buy for a modest sum a mechanical pencil sharpener that does the work quickly and easily.

Each time a pencil is sharpened, however, it gets shorter, until finally it is too short to use. Just how short a pencil must be before it become unusable is a matter for argument. In most offices, wood-cased lead pencils often are discarded when only half used. Clerks claim that their work is slowed when using a short pencil. Pencil holders are available, but at a cost many times that of a single pencil.

Mechanical Pencils. Attempts were made to devise a mechanical pencil that would hold a thin lead without breaking or jamming. Actually, the designs of the pencils were ahead of the formulas for the leads. But since they had to work in combination, the result was the same—broken leads and jammed pencils.

One of the first successful mechanical pencils was the Eversharp, which attained a wide distribution. But it did jam occasionally, requiring the lead holder to be easily detachable. Eventually, however, this difficulty was overcome.

What's in a Name? Another early comer in the mechanical pencil field was the Autopoint. It looked for a while as though the Autopoint would give the Eversharp some real competition, but its jamming was never overcome. Then a successful nonjamming pencil, called Realite, was introduced. Since it did not sell too well under that name, the right to use the name Autopoint was purchased, and the company began to forge ahead, being now well and very favorably known.

A new type of handwriting instrument appeared in the 1940's—the ball-point pen. Though high-priced, millions were sold

through a high-pressure advertising campaign that stressed pride of ownership rather than utility. The pen did not perform too well, and many were returned. Meanwhile, competing ball-point pens were quickly designed and marketed, some good and some poor. Although ball-point pens are now inexpensive, uniform ink-replacement units are a problem at present, regardless of the price paid for the original pen. One satisfactory use for the ball-point pen is writing on multicopy carbon sets of forms. As several months may pass before another ink refill is necessary, this type of pen is convenient in many ways.

Other companies have devised mechanical pencils, so that now there are so many makes to choose from, at various prices, that it would seem as though no new improvements could be made. But each month the United States Patent Office reports new patents for mechanical pencils, indicating that the end is not yet.

Product Improvement. And what have the old-established pencil companies done to meet the competition of mechanical pencils? Many of them have added the manufacture of leads for mechanical pencils, which is comparable to the blade end of the safety razor business. In wood-cased pencils, two improvements are discernible—greater uniformity in the wood and also in the lead. Seldom does a wood-cased lead pencil, even the cheaper pencils, splinter in a mechanical sharpener. Nor does the lead break so easily. In addition, the pencils write more smoothly, with less grittiness and scratching, which was once common and which has been overcome by more careful processing of the lead under improved formulas.

Another step that the old-line pencil companies have taken is to increase the use of wood-cased pencils as souvenirs and advertising novelties. Although this use is not new, the comparative initial prices of wood-cased and mechanical pencils are in favor of the former. An attractive wood-cased pencil can be furnished for 1 or 2 cents; an equally attractive mechanical pencil would cost 10 to 25 cents. For \$100, therefore, an advertiser can distribute 5,000 to 10,000 wood-cased pencils, while the same number of mechanical pencils would cost \$1,000 or \$2,000. This seems to be a clear case where price definitely limits the market for a product.

MARKET RESEARCH

The study of markets is thus another job for sales research. Markets may be actual or potential. An *actual market* is one in which there is an existing demand that may or may not be supplied at the present time; in any case, the demand is there. A *potential market* is one in which the demand does not exist, considering demand as an expressed desire and not merely as an unexpressed need. The potential market may offer greater possibilities than the actual market, but it also may cost more and take longer to develop. The telephone is a case in point.

When "the fool who says he can talk through a wire" tried to market his invention, he found no demand. The demand had to be created. The present distribution of telephone service in the United States attests to the success of that demand creation. The telephone company probably has been the most consistent advertiser in newspapers and magazines, year in and year out.

The telephone company must continue to advertise extensively to create and maintain the good will of the public, because, as a near monopoly, it is liable to unfavorable legislation affecting its services, rates, and possibly other features. The publicizing of the

Some Market Research Questions

1. What kind of people are most likely to buy what you have to offer?
2. What reasons have they for buying it?
3. Why do people who have tried your product prefer something else?
4. What is your competition—and its sources of strength?
5. How salable is your product, and what can you do to improve it?
6. What is your proper sales territory for profitable operation?
7. How can you extend your sales territory with safety and profit?

(Courtesy Remington Rand SYSTEMS)

fact that the American Telephone and Telegraph Company has over a million stockholders is planned for two purposes: first, to emphasize the fact that so many people consider that telephone stock is a good investment; and second, that any steps taken by government authorities to break up the telephone company's organization would affect unfavorably a very large group of citizens.

The use of radio advertising by the telephone company, except in emergencies, is limited largely to its musical program, during which time a few minutes are given to emphasizing the value to the country of the company's integrated operations. It is rather interesting that a medium in the development of which the telephone company's research laboratories have had so considerable a part should not be used for more advertising of the company's own services. On the other hand, the broadcasting companies use the telephone constantly in checking the extent to which their radio programs are being listened to.

An existing market may be undersupplied or well supplied or oversupplied. If undersupplied, the entrance of a new product is not so difficult; about all that is necessary is to announce the new product and see that it is available for purchase.

In a market that is well supplied or oversupplied, the problem is to meet and overcome competition. There are five directions that may be taken to meet competition, any one or all of which may be necessary, as determined by the market studies of the research department. They are price, quality, service, terms, and product.

HOW IMPORTANT IS PRICE?

When competition is mentioned, many people think only of price. Price *is* important, but it is not all-important. A low-priced product of poor quality cannot maintain a market that demands a higher quality. On the other hand, a better quality product at the same price as a competing product has little difficulty in maintaining its market as long as those differentials obtain. Consider the large number of relatively unknown brands of double-edged safety razor blades that compete with a certain well-known blade at the same price. Since the well-known company itself advertised, at the time it purchased a competing concern, that it had sacrificed quality for production, it has only itself to blame. One won-

ders how long it would take this company to become the sole supplier of double-edged blades if its own product were of uniformly high excellence. One is reminded of the remark made by one automobile manufacturer to another some years ago: "When you make the car you advertise, I'm going to buy one."

Although quality is not all-important, it plays an important part in business and in competition. Quality for quality, other things being equal, the low price is more attractive than the high one. Where the material or goods are purchased for resale or for processing into another product for resale, the price has a definite bearing on the costs on which the resale price will be figured.

Is This Fair? Unthinking or unknowing persons are inclined to believe that all price competition is evil, that prices should be either sustained or repressed, and that all price cutting is predatory. Such persons are inclined to criticize severely any concern, that through improved management is able to lower its costs enough to cut the price of its product below that of its competitors. The Lincoln Electric Company of Cleveland, for example, established methods enabling it to manufacture at a fraction of its competitors' costs. The Federal authorities at first refused to make any allowances for better management methods. They used the costs of competitors as a criterion and regarded any savings made by the Lincoln Electric Company as extra profits that should be taxed instead of shared with the employees who had made those savings possible.¹ After several years of litigation, the courts finally ruled that these large payments could be deducted from taxable income.

FAIR TRADE ACTS

In an attempt to control resale prices, the United States Congress passed the Miller-Tydings Fair Trade Act, which forbade any buyer for resale to sell below the minimum resale price established by a manufacturer with whom he has signed a retail price maintenance contract. Most of the states passed similar legislation to cover intrastate business, but with this difference: while the Federal act required the contract to be signed to be enforceable, the state laws permit a manufacturer to fix the sale price of a

¹ See "The Lincoln Electric Company Incentive Plan," by James F. Lincoln, in Production Series No. 153, American Management Association, pp. 35-36.

competitive trade-marked product throughout the state if but one retailer has signed a retail price maintenance contract; the fact that one retailer has signed binds all others in the state. This is the famous "nonsigner clause."

The fair trade acts effectively eliminated predatory price cutting, which resulted in so-called "loss leaders," where a store advertises certain well-known merchandise at less than cost to attract customers who will buy enough other items to more than offset the loss taken on the advertised articles. But the fair trade acts also prevent more efficient merchandisers from attracting trade by offering standard merchandise at lower prices. The result has been that the consumer pays higher prices for nearly everything.

In May, 1951, the Supreme Court of the United States ruled that retail price maintenance contracts were not binding on non-signers. This did not affect intrastate commerce, which is governed by state laws; but it did affect interstate commerce, which is governed by Federal law. Overnight, two large New York department stores started a "price war," cutting prices on nationally advertised merchandise. In 1952, the Congress enacted legislation which included the nonsigner clause, so that if only one retailer signs a retail price maintenance contract with a manufacturer, all the other resale customers of that manufacturer are similarly and equally bound, whether they sign or not.

HAS PRICE ANY RELATION TO VALUE?

Price alone ordinarily has no significance, even though inexperienced buyers and many consumers may believe that price has some relation to value. To determine the price level at which a certain garment would sell best, retail stores have experimented by simultaneously displaying the same garment at several different prices, ranging from 69 cents to \$4.98, for example. In a case reported by a large store, the price at which the garment had the largest sale was \$3.48. It is obvious that not more than one of the prices at which the garment was displayed had any relation to its cost.

Many consumers pay a higher price for a certain label or at a particular store under the impression that the label or the store name is a guarantee of better quality than the identical item

available from other sources at a lower price. Presumably, as long as consumers continue to buy on such a price basis, there always will be sellers ready and willing to accommodate them. Although the trend toward informative labeling is adjusting this situation somewhat, many consumer purchases are made with motives other than utility and value. Pride and snobbishness are among these motives.

WHAT IS QUALITY?

Quality is usually more important than price, especially when buying to specifications. But the word "quality" has been misused. The term "quality goods" does not mean what many consumers think it means, for there are many levels of quality. Canned salmon, for example, comes in several grades, from the finest steaks at top prices, to the lowest priced put up especially for cats. The cat salmon is good quality for cats, but not a preferable quality for human consumption, although often bought for that purpose, as is illustrated by the story of the mother who, in the market with her small daughter, asked the price of canned salmon. The grocer gave various prices, including cat salmon at 15 cents. The woman decided on a can of cat salmon, whereupon the small daughter asked, "O Mummy, are we going to have a kitty?"

Quality is purely relative. If all goods were classified according to five levels of quality, such as best quality, high quality, good quality, medium quality, and standard quality (note the terms and their possible significance), there would be buyers at each level. All the goods are "quality" goods. If a seller determines that the quality of goods at the standard level is the market he wishes to supply, he should not be criticized for his decision, *so long as he does not represent his goods to be of a better grade than they actually are*. Someone has to supply the market at that level, and why shouldn't he?

Once a manufacturer has established the level of quality for his product, he must maintain that level. Consumers do not easily forget the lowering of quality of goods that has long been fixed at a certain level. A collar manufacturer, who had established a wide market, suddenly reduced the quality of his goods. The demand for his collars fell off so rapidly that it was years before he regained

his markets. The same is true of a large typewriter manufacturer, whose machines during one year were so poorly made that it took fifteen years to regain a quality reputation, but the concern never regained its former leadership in the industry. Such instances could be multiplied many times.

RELATION OF QUALITY, PRICE, AND SERVICE

Quality and price as factors in meeting competition are powerful, but they must supplement each other to be wholly effective. It is difficult to convince satisfied customers that a competing product is even "just as good" as the established one. A lower price may create the suspicion of a lower quality. The newcomer frequently has to use other methods of breaking into an established market. One effective method is to give superior service.

Service means giving prompt and adequate attention to customers' correspondence, complaints, and particularly orders. One of the evils of monopoly is the indifference to the wishes of customers that a concern enjoying a monopoly almost invariably displays. The attitude is: "If they want what we've got, they must come to us; if they don't come to us, someone else will. Why worry?" Even if the heads of the concern do not feel that way, the lesser employees are likely to, unless there is continuous and determined effort to overcome it. Had the railroads in their early days shown more consideration for the public, certain later problems might not have arisen. Probably, the outstanding example of a monopoly that has imbued its employees with the right attitude toward customers is the telephone company, whose advertised motto is: "The voice with the smile wins."

TERMS—THE FOURTH FACTOR IN COMPETITION

Price, quality, service—these three are at the basis of success in meeting competition. A fourth factor, not so important now as the other three, is the terms that can be offered to customers. Terms refers to the time allowed to customers for paying bills and includes also cash and trade discounts.

Cash discount is a deduction, frequently 2 per cent, allowed for paying a bill within a given time, which varies from 10 to 70 days or more, depending on the industry. *Trade discount* is the deduction allowed to the trade—that is, by a manufacturer to a whole-

saler or a retailer, or by a wholesaler to a retailer or another wholesaler. It is a simple way of adjusting price. One list price would be quoted to everybody, and each customer would apply the trade discount to which he was entitled to find the net price of the goods.

There was a time when a seller could make any terms he chose, even if it meant virtually giving the goods away. But legislation, like the Robinson-Patman Act, for instance, placed restrictions on the leeway of the seller in quoting prices and, since terms often affect prices, on the terms that may be granted.

Under the act, a seller may not sell his goods at more than one price, regardless of the quantity ordered, unless he can show that the difference in price is due to the saving in costs brought about by the larger order. Time was when goods intended for use in the spring could be sold and delivered in the fall, with the understanding that payment need not be made until spring. "Spring dating" and "fall dating" were quite common. There is now some question as to how far a seller may go in granting large discounts and long datings, since both are closely related to price. Authorities are not wholly in agreement.

Two other types of dating are E.O.M. (end of month) and R.O.G. (receipt of goods). Ordinarily, an invoice will carry terms allowing a cash discount for payment within 10 days from date of invoice, but net 30 days from the invoice date. To earn the cash discount, the customer must pay within the 10-day period. If he has several invoices during the month, he might have to make several payments. To avoid this additional clerical work, terms of 2/10 net 30 E.O.M. may be allowed on request. The customer is allowed 10 days after the end of the month, in which to pay all bills of that month and still take his discount. One payment will cover all the bills. Frequently, bills dated after the 25th are included in the bills of the following month and paid 10 days after the end of the following month.

A customer located at a distance from his supplier may not receive his goods until after the discount date. So that the customer need not pay the bill before he has received the goods, the supplier may grant him R.O.G. terms. This means that the time for discounting the bill starts the day that the goods are received. Thus if a shipment made September 8 on R.O.G. terms is re-

ceived on September 19, the discount time starts September 19.

Sometimes, prices are quoted f.o.b. mill or factory, f.o.b. carrier, f.o.b. Chicago (or some other place), or f.o.b. destination. The abbreviation f.o.b. means "free on board," and indicates that the seller will pay the transportation charges to the point stated, thus:

f.o.b. factory	Seller pays no transportation charges.
f.o.b. carrier	Seller pays transportation to and aboard carrier's vehicle.
f.o.b. Chicago	Seller pays transportation to stated point.
f.o.b. destination	Seller pays all transportation charges.

The last of the five factors that a seller may use in meeting competition concerns the product itself. If sales research shows that a certain market exists for a product, a seller may decide to provide it, if only to avoid competition until he can become better established.

QUESTIONS FOR REVIEW AND DISCUSSION

1. Who is in charge of sales work? Explain or comment.
2. Why is the sales department the most important one in the business? Or do you think otherwise? If so, why?
3. What facts indicate the importance of salesmen?
4. Explain this statement: "Sales are the lifeblood of a business."
5. Contrast the actions taken by different concerns during depression times.
6. Explain this statement: "At any time, good or bad, there are always some concerns that are having good business."
7. Explain this statement: "Making sales does not mean merely taking orders."
8. Explain this statement: "The successful salesman must be a born optimist."
9. What are the three functions of selling?
10. With what common factor are all the sales functions concerned? Why?
11. Comment on "finding out what people want."
12. Why are so few people now familiar with the name of Sapolio?
13. What is the purpose of sales research, and how is that purpose carried out?

14. What is the problem of sales research with respect to the design of the product?
15. How did Lever Brothers establish consumer acceptance of Swan so quickly?
16. Why did a prosperous safety razor concern allow the patent situation to arise, as described in the text? What should have been done?
17. Why were mechanical pencil sharpeners devised?
18. Trace the development of mechanical pencils.
19. What steps has the lead pencil industry taken to meet the competition of mechanical pencils?
20. Comment on market research.
21. Why should the telephone company, which is a near monopoly, continue to advertise extensively?
22. "An existing market may be undersupplied, well supplied, or oversupplied." How would you know which of these conditions exists with respect to your product or service?
23. What five steps may be taken to meet competition in a competing market?
24. Which is more important, price or quality? Why?
25. Is all price competition evil? Explain.
26. Comment on the experience of the Lincoln Electric Company.
27. What is the purpose of the Fair Trade Acts, and how are they working out?
28. How significant is price alone? Explain.
29. Comment on the term "quality goods."
30. Explain this statement: "Quality is purely relative."
31. Why is it vital to maintain an established level of quality?
32. Explain the relation of service to competition in business. Illustrate your answer.
33. Explain terms in connection with business.
34. Distinguish between cash discount and trade discount.
35. What is the difference between E.O.M. dating and R.O.G. dating?
36. Explain fully the meaning of f.o.b. in a price quotation.

CHAPTER XII

Organization for Sales and Advertising (continued)

After sales research has determined the product to be sold and the market for that product, there still remains the selection of methods of selling. This is again approached from the customer's standpoint.

How will the customer prefer to have goods for sale brought to his attention?

Will he prefer to have salesmen call at his office or home, or would he rather visit the seller's sample rooms or a store?

Is he accustomed to buying from advertisements or from circulars received through the mail?

Is telephone solicitation desirable or effective?

In the case of a manufacturer, is it better for him to sell direct or through wholesalers, or how?

Are samples more effective than descriptions?

Are testimonials from satisfied users more appealing than the statements of the advertiser?

CHOICE OF A SELLING METHOD

The choice of a selling method is influenced also by the nature of the merchandise and by its price. A closely figured price does not allow much leeway for selling expense. On the other hand, bonds cannot be sold by sample, nor can private yachts be sold by house-to-house canvassing. Groceries are not sold universally from house to house, although that is an effective method of

creating a demand for sampled merchandise. Unless a stock is maintained at stores convenient to the customer, however, the sampling effort may be wasted.

Although there are established sales channels for nearly all standard merchandise, a seller may use any means that he believes will bring him the business. Or he may use every means at his disposal.

CHANNELS OF DISTRIBUTION

Customary methods of marketing merchandise sold through retail stores involve making up samples for the manufacturer's salesmen to display to the store buyer, who places his order for subsequent delivery. Or the manufacturer may sell exclusively through wholesalers, who make the contacts with the retail stores. In a few cases, the manufacturer may by-pass the wholesaler and retailer and contact the consumer directly through salesmen, through mail sales letters, or through advertising, believing that he may sell more merchandise that way. Or he may feel that the usual channels are prejudiced against his company or his product. Such concerns as The Fuller Brush Company and Real Silk Hosiery Mills, Inc., do a tremendous business through canvassers. Large and small mail-order houses bombard their customers and prospects with their offerings through sales letters and catalogues.

Only incidentally, however, will a manufacturer advertise for business to come directly to him. Rather is his advertising intended to encourage customers to trade at the established local sources of supply, or to draw inquiries that are turned over to salesmen or distributors to follow up.

Salesmen call (1) on retail merchants with goods for resale, (2) on industrial and commercial purchasing agents with goods for use within the individual establishment, and (3) at homes with items intended for domestic use. The first group are often called *travelers*, the second group *salesmen* or *sales representatives*, and the third group *canvassers*.

If the product needs servicing, as in the case of office machines, the manufacturer may maintain local branches, sometimes called factory branches or sales and service branches, that not only sell direct to the user, but also take care of maintenance and repair.

THE PURPOSE OF TRAINING SALESMEN

All salesmen require training, direction, and supervision. The extent to which all three are necessary varies with the individual, the goods, and the company. Generally speaking, the more thorough the training, the better the results. It is frequently possible to shorten appreciably the period of *in-service training* by the company, through effective pre-employment training in salesmanship in schools and colleges. Good training, wherever given, consists of thorough instruction under a competent experienced instructor, with opportunity for practice under his supervision.

There are several methods of training salesmen, not all equally effective. Before describing any of these methods, it might be well to consider the purpose of salesman training.

What a Salesman Should Know. First, a good salesman *knows his goods* and can present their merits effectively and adequately. He can answer any ordinary questions about them, such as their content, properties, method of manufacture, and uses.

Second, a good salesman *knows his company*, its history and development, the men who are responsible for its success, the standing of the company in the trade, its progressiveness and reliability, and similar facts.

Third, a good salesman *knows his customers*. Without going into the theory of differences between individual persons, it is enough to say that all buyers are not alike. Some want to learn everything there is to know about the goods; others are satisfied with a few details. Some are susceptible to a logical presentation; others to an emotional one. Some are interested in details; others are not.

Fourth, a good salesman *knows the technique of selling*, which includes the approach to the customer, gaining his attention, arousing his interest, creating a desire for the goods, and turning that desire into action—that is, getting the order.

It may be claimed, with reason, that all a salesman needs to know is the fourth feature, that anyone may know the first three, but if he has not the fourth, he cannot be a successful salesman. There is just enough truth in that argument to make it impressive. Its weakness lies in the fact that it substitutes cleverness for knowledge. A salesman may be able to dodge questions about his

product and his company, but he cannot satisfy all customers with the same verbal fencing and side-stepping. Sooner or later, he will trip, and another customer is lost.

The purpose of salesman training, then, is to give the prospective salesman (1) adequate knowledge of the goods and the house, (2) necessary information about his customers and prospects, and (3) instruction and practice in the selling technique. How is this training given?

METHODS OF TRAINING SALESMEN

Various methods of training salesmen are in use by different companies. The main differences are in the time allowed for the training and in the resulting effectiveness of the training. At one extreme is the extended program that starts a young man in the stock room, where he becomes thoroughly familiar with the stock. Then he may be placed in the general office to get acquainted with the mechanisms established for handling orders, invoices, correspondence, and similar office work. After that comes the advertising department, where he learns how the features of the company's product are presented attractively and how the advertising department cooperates with the company's distributors.

Then the trainee spends some time in the sales office, where he becomes acquainted with those responsible for bringing in the business and with sales methods. Next, he may accompany an experienced salesman on a trip, acting as his assistant, carrying his samples, serving as a model if one is needed, and making himself generally useful. The senior salesman may point out the features of each call in advance, so that the junior will know what to look for and will see how various situations are handled. After the call, the junior may have questions, which the senior can answer, pointing out certain aspects that may not have been clear or anticipated. Occasionally, the senior salesman will allow the junior to try his hand, selecting, of course, a customer who will appreciate the circumstances and not feel slighted.

When the senior salesman is satisfied that the junior can handle things on his own, he will so report to the sales manager, who will then give assignments to the junior that are within his capacity.

How Long Should It Take? A training program, such as described, may take from one to five years, depending on the desired

thoroughness. Obviously, the longer the program, the younger the candidate should be when he begins it. For this reason, such an extended program may be suited only to youths.

It is possible to shorten the training program considerably and to condense it within a few months or less. To do this requires thorough preparation, an experienced instructor, and well-selected trainees. Samples of all the company's products may be inspected and their fine points indicated. Illustrated sales literature may well supplement this part of the training program. Detailed sales instruction manuals are invaluable, provided they are well prepared. Sometimes, sales manuals present a "canned" sales talk to be memorized and used word for word. This plan has its advantages and, some claim, disadvantages. Short talks and discussions by officers and department heads help to explain company policies and objectives.

Following an intensive course of instruction, the trainee is ready for a test on actual selling, either under supervision, which is probably better, or by himself, which also has both advantages and disadvantages. When the instructor and the sales manager are satisfied, the new salesman is given an assignment, which may comprise all or part of the line and certain customers or prospects in a given territory.

If the business is a seasonal one, like clothing, the salesmen may go on selling trips twice a year. In such cases, the credit manager may go over each salesman's accounts with him and indicate the extent to which he can sell each customer. This practice prevents overselling, which loads the customer and makes him a poor prospect for the next season's business.

Shortsighted Tactics. To persons not in contact with selling for a reputable house, it may be surprising to learn that salesmanship does not consist of "putting something over" on the customer, especially where his trade is desired year after year. The easiest way to lose a desirable customer is to trick him into buying something he does not want and cannot use or sell.

It also may be surprising to learn that not all business concerns require their salesmen to sell to each customer all that he can be persuaded to buy, or to persuade him to make an immediate decision. A few products or services that might be hard to sell if the customer took time to consider them are pushed by the "one-

call" method, in which the salesman uses every means he can to make the sale on his first call, realizing that there is little possibility of completing the sale on a second call. High-pressure tactics are, however, shortsighted in the long run and do not establish permanent, enduring customer relations. Products that require forced selling are not always economically sound, and the disadvantages often more than outweigh any short-term advantages. High-pressure selling is accompanied almost always by a high turnover of both salesmen and customers. Eventually, such practices defeat themselves and do not result in lasting satisfactions.

SELLING IS REAL WORK

Let no one get the idea from the preceding paragraph that selling ability is not required or that the salesman merely takes orders. There is a vast difference between being handed an order and going after it. One is passive and may be likened to the waitress whose customers come to her and state what they want; the other is active and requires helping the customer to make up his mind, but does not use high-pressure methods to convince him. A good salesman is not satisfied with selling the customer an order; he makes sure that the customer buys what is best for the customer, if he can supply it. It takes courage for a salesman to tell a customer that his goods do not meet the requirements; but it builds good will.

Even in a retail store, a salesman has the opportunity to build a following. In one men's clothing store, for example, the outstanding salesman now and then will tell a customer: "I'm sorry, but I haven't a thing that would suit you. Come in again in about two months." This attitude makes the customer feel that the salesman is looking out for the customer's interests and is not thinking merely of making a sale. In many stores, customers will look for or wait for certain clerks, believing that the particular clerk will give better service and be more interested in the customer's needs. It is unfortunate that more retail clerks do not try to please customers. Or perhaps the store management is at fault.

SUPERVISION OF SALESMEN

Like other employees, salesmen need direction and supervision. The man who never goes stale on his job does not exist. Salesmen

get discouraged at times, just like other people. A wise sales manager, therefore, keeps close tab on his salesmen and knows when to pat them on the back, when to give them a push or a lift, and when to criticize. Often, a sales manager will jump into the field and help a salesman close a difficult prospect. To be able to do this involves keeping in touch with the salesmen.

Many sales managers put their salesmen in competition with each other, realizing that healthy rivalry is an effective stimulant. Published results of the period's sales by each man on the force show how they are doing and keep up competitive interest. Usually, quotas are set to show each man the amount of business that he should turn in during the stated period. If these quotas are not arbitrarily set, but are based on territory, conditions, and the salesman's possibilities, they are effective. Where they are simply an advance over the preceding period, they may result in a hopeless feeling on the part of the salesman.

One sales manager thought he was praising his salesmen when every month he started his letter with these words: "Your sales for March were very good indeed, but not good enough." It does not take long for an employee to cease trying to satisfy those who cannot be satisfied. After an employee has acquired the attitude of "What's the use?" his value to his employer has lessened appreciably; his morale is pretty low.

SALES STATISTICS

The sales manager receives reports on what his salesmen are doing, on the prospects located, the calls made, the sales made, the expense incurred, and so on. This information is transferred to the office records, and summaries are made for comparison. From these statistics, charts and graphs are prepared showing the percentage of prospects sold, also the general relation of cost to sales and the ratio of the individual's sales and expenses to the average.

All these records show the producing ability of the salesman, to what extent the business is up to standard in each district, and the cost for each dollar of sales.

In retail stores, the salesclerks make out a sales slip for each transaction. A copy is given to the customer with the goods. A duplicate is used for recording and totaling the sales made by

each clerk. In large establishments, where much compiling of statistics is required and the accounting is complex, a tabulating and recording machine may be used.



Courtesy International Business Machines Corporation and Remington Rand, Inc.

Cards showing the details of each sale are first punched, then sorted and tabulated, all by machine. Each hole represents a number or letter.

From these sources and from the report of the mail orders received, the summary of the day's sales is made up and placed on the sales manager's desk the next morning. These daily reports show not only the sales made, but also the cost of making the sales. Gathering the statistics of sales forms an important part of the office work of the sales department, since it is through a study of these figures that the sales manager finds the answers to three questions that confront him in his work. A knowledge of these

questions is important, since all the records concerned with the sales department are devised with these three questions in mind.

Analyzing the Figures. The first question that the sales manager asks is: "How many dollars' worth of goods are we selling?" Having found this out, his second question is: "What is it costing us to sell that quantity of goods?" And third: "How can we sell more goods and yet keep down the expense of selling them?"

Millions of New Customers

Since 1939, the average number of babies born in the United States has been around three million a year. That means bigger markets than ever for business, industry, and manufacturers. It will mean the building of more schools, the raising of more food, the manufacture of more clothing, the construction of more homes.

It has already meant a tremendous increase in the production and sale of infants' wear. Toy manufacture is expected to rocket to new heights to provide a toy for every tot.

When these youngsters begin to walk, the shoe manufacturing industry will have a bigger market than it has ever had before.

As the children start school and outgrow their nurseries at home, there will be a stepped-up demand for more single-family houses. This will give impetus to the home furnishings and home equipment business. It will eventually necessitate the physical expansion of existing communities, the development of new ones.

It will mean the building of more banks and stores, the extension of bus and car lines. It will stimulate and sustain a higher level of employment.

(Adapted from article by Josephine Ripley in "The Christian Science Monitor")

The first two questions are answered by the reports already referred to. The third question is a problem of sales management and involves making sure that every dollar spent on sales effort brings results. Some concerns use a ratio that shows the actual cost per dollar of sales and apply that ratio to all selling expenses. If the ratio tends to get out of line, the figures are analyzed closely to find out the cause and the remedy. It is an axiom of business

that "it costs money to make money," but that is no excuse for throwing money away. It is probably easier to throw away money in the sales department than anywhere else, because the optimism of the sales manager and his salesmen leads them to believe that, if they could only get the money to do this, that, or something else, the business would just come rolling in. Sometimes, they are right.

Sales by Territories. The sales manager is also interested in two other types of figures. One is the sales produced from each territory. Geographic territories usually differ in the amount of business that can be secured from each, because of differences in population types, in density of population, in the nature of the community—whether industrial, commercial, residential, or agricultural—and so on. The sales research department procures these figures from government or other sources, breaks them down, and often can state positively the amount of business that any stated territory should reasonably be expected to produce. (The promotion form on page 266 shows the information that one concern procures.)

Allowance is made for the fact that if ten concerns decide that a given territory can produce a stated amount of business, all cannot expect to get the full amount. This is where intelligent competition makes itself felt.

Sales by Products. The final type of figure that the sales manager wants is the analysis of sales by products. This analysis shows how much of each of the company's products is sold in the various sizes, in each territory, and by each salesman. A study of these figures shows which products are selling well, where they are selling well, and who is selling them. A sudden jump or slump in any of these figures calls for immediate explanation, so as to take advantage of favorable conditions or to offset unfavorable ones. Furthermore, if one item shows a phenomenal sale, it should not be allowed to run out of stock, thereby losing desirable sales.

The controller can be of real help to the sales manager in gathering figures and arranging and presenting them for quick and intelligent analysis.

The outline in Chapter XI, "An Approach to the Problem of Distribution," summarizes the work of the sales manager and his department.

ADVERTISING DEPARTMENT

The advertising department works closely with the sales department. In many cases, the advertising manager is responsible to the sales manager. In others, he is coordinate with him, depending on the business. In any case, the advertising manager or director of advertising, or whatever his title, is usually a highly trained man who knows the technique of advertising in all its ramifications and is able to select and apply appropriate measures to produce the most satisfactory results in any given situation.

Purposes of Advertising. The primary purpose of advertising is to bring the company and its products quickly and favorably to the attention of possible prospects who would not be reached by salesmen in a reasonably short time.

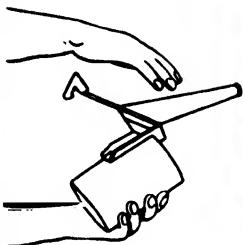
A secondary purpose is to pave the way for salesmen.

A third purpose is to create good will toward the company. This is what is known as *institutional advertising*, the best example of which is probably that of the American Telephone and Telegraph Company, but there are many other examples.

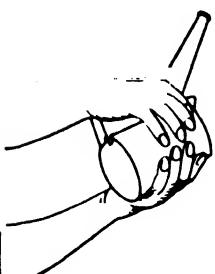
Forms of Advertising. Advertising may be in the form of copy inserted in newspapers and magazines, or as fliers, circulars, leaflets, pamphlets, price lists, catalogues, and so on. They all require the preparation of copy, the selection of appropriate type and illustrations, and the arrangement, or *layout*, of the copy and illustrations. A technique for the preparation of advertising copy has been developed with rather rigid specifications along well-recognized lines. To that extent, perhaps, advertising may be said to be a science, although there are still enough uncertainties to justify calling it an art.

Often, the work of the advertising department of a business concern is supplemented by the services of an advertising agency, whose assistance may range from merely giving counsel to a complete service preparing copy, selecting mediums, checking insertions, and so on.

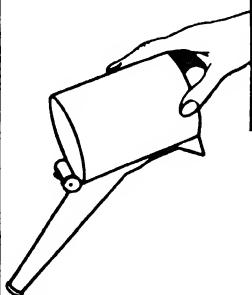
Advertising in Periodicals. Advertising in newspapers and magazines involves much more than the preparation of copy. The selection of the publications to be used, the amount of space to be taken, the number of issues, the dates of publication, the closing dates of the page forms publications—all these must be



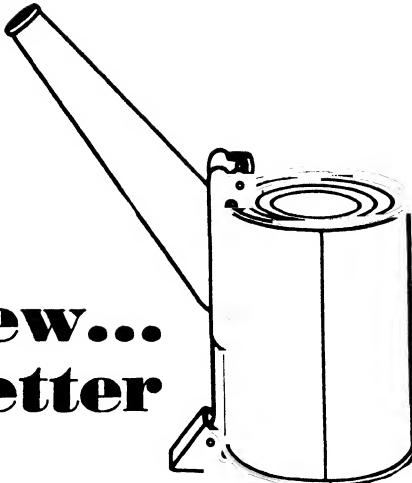
Place opener on top
of can with latch up.



Press down firmly
... Latch locks on
bottom of can . . .
cuts hole in side.
Not a drop leaks out.



Serves all makes of
cars . . . spout at just
the right angle to
reach all intakes
easily.



New... Better

The Balcrank "SID-E-SPOUT" Can Opener and Oil Funnel

HERE'S a can opener and funnel that cuts and destroys the can in a flash right in front of the customer . . . without laying it on the ground or slipping the can into a container. The handiest, most efficient for any service station.

- 1 Cuts hole in side of can, destroying label . . . Impossible to refill.
- 2 Complete drainage is assured . . . Can may be set down without spilling at any time.
- 3 Knife and gasket form perfect seal against leakage . . . Drainage is quick.
- 4 Knife and gasket are removable . . . without bolts or rivets . . . for easy, reasonable maintenance.
- 5 Opener and funnel all in one piece—no other unit necessary . . . Quick, easy, convenient.
- 6 Two sizes . . . for one and five quart cans.

BALCRANK

CINCINNATI,
OHIO

This advertisement tells the whole story in three steps, leaving nothing to the imagination.

determined or ascertained. When the advertising schedule has been finally drawn up, someone must be delegated to see that it is followed in every detail.

After the advertisements have been inserted, they have to be checked for two purposes: first, to make sure that they actually

Isn't it funny?
That so many
Business men
Will get up in the morning,
Refresh themselves with a dose of
advertised salts,
Clean their teeth with an advertised
brush and advertised toothpaste,
Shave with an advertised razor,
Wash and shave with advertised soaps,
Put on advertised underwear,
Advertised hose, garter, shirt, collar
and shoes,
Seat themselves at the table,
And eat advertised breakfast food and
bread,
Drink advertised tea, coffee, or cocoa,
Put on an advertised hat and gloves,
Light an advertised cigarette,
With an advertised lighter,
Go to the station in an advertised
motor car,
Give letters to a typist,
Who types on an advertised machine
and
Uses advertised carbons,
Sign their letters with an advertised
pen
Containing advertised ink,
And
Turn down a proposal to advertise on
the ground
That
Advertising Doesn't Pay!

—Printer's Ink

appeared; and second, to ascertain what results came from them, and whether or not they were worth their cost. Each publication is examined to see if the advertisement appeared in the issue specified, in the position specified, and according to the copy, layout, and space contracted for. Most publishers send to their advertisers—or to the advertising agencies—a marked copy for this purpose. Results secured from particular advertisements are checked by keying the advertisements, as explained below.

DOES ADVERTISING PAY?

A concern may feel sure that it has an article to sell that is desired by a certain group of people, or it may be able to write an interesting story about it, or it may know the best time to advertise the article. But it may not be sure of the best medium through which this information is to be given to the public. On this account, it is necessary to keep a complete record of all returns, both of inquiries and of actual sales.

Such records, kept over a period of time, make comparisons of different mediums of value. Although it is not easy to get accurate records of results from newspaper, magazine, radio, and television advertising, it is not impossible. Such records are particularly valuable in planning the advertisement and in deciding which mediums to select for advertising purposes.

In one method of checking, the records are kept fairly accurate by *keying each advertisement*. This is done by using some symbol or distinctive mark in the address line which will easily identify the source of the inquiry. Sometimes, a department letter is used, such as Department A in one publication and Department C in another publication. Sometimes, the addresses may consist of different street or room numbers.

In newspapers and magazines, many advertisers use coupons on which different symbols indicate the publications carrying the advertisement. Coupons also make it easier for the prospect to send in his order or inquiry.

When the replies come in, they are sorted according to key numbers; it is then comparatively easy to record the number of replies to each advertisement. The records usually show the name of the publication and all necessary information in regard to the advertisement and the results obtained from it.

HOW 54 COMPANIES KNOW THEIR ADVERTISING PAYS

IT HAS MADE POSSIBLE IMPROVEMENTS THAT LEAD TO GREATER PROFITS

PRODUCTION

- SIMPLIFICATION OF MANUFACTURING PROCESS
- SIMPLIFICATION OF LINE
- MORE ECONOMICAL EQUIPMENT
- GREATER PRODUCTION, HENCE LOWER COST
- MORE RAPID HANDLING
- BETTER PRODUCTS
- A MORE CONTENTED WORKING FORCE

DISTRIBUTION

- INCREASED PRESTIGE OF SALESMEN
- UNIFORM SALES POLICY
- UNIFORM PRICES
- UNIFORM MARKUPS
- STEADY DISTRIBUTION
- BETTER SERVICE TO CONSUMERS
- INCREASED SALES
- GREATER DEALER INTEREST
- LESS SALES RESISTANCE
- GREATER ABILITY TO INFLUENCE BUYING TENDENCIES

FINANCING

- LARGER VOLUME OF BUSINESS
- SMALLER AMOUNT OF CAPITAL TIED UP IN EQUIPMENT & MACHINERY
- DECREASED INVENTORY

IT HAS ESTABLISHED THE COMPANY AND ITS PRODUCTS IN THE MINDS OF CONSUMERS

- INCREASED GOOD-WILL
- ACCEPTANCE OF CLAIMS
- INCREASED PRESTIGE

IT HAS BROUGHT IN INQUIRIES AND ORDERS

- CONSUMERS
- TRADE
- CONSUMERS THROUGH TRADE
- CONSUMERS THROUGH BRANCH OFFICES AND SALESMEN

HOME ECONOMICS DEPARTMENT E3-6, AMERICAN CAN COMPANY
320 PARK AVENUE, NEW YORK, N. Y.

Please send me, free of charge, your motion picture film "Alaska's Silver Millions".
 Date required..... Date film will be returned.....
 No. of projectors in school.....
 Send film checked 35 m. m. Silent 16 m. m. Silent 35 m. m. Sound 16 m. m. Sound
 Also send..... Teachers' Guides
 I promise to return the film to you on the date specified above and will prepay the return postage.
 Signed..... Principal
 Name of school.....
 Address of school.....

Courtesy American Can Co.

for you from start to finish: what to see and do, how to get here, time required, itemized cost schedules, plus over 100 photographs, maps, etc... authentic facts available only through this non-profit community organization. Coupon brings it **FREE** by return mail.

When you arrive, be sure to visit our new Official Information Bureau, 505 West 6th St., Los Angeles, for expert help in getting the most enjoyment out of your stay here. **FREE**, of course.

Come to California for a glorious vacation. Advise anyone not to come seeking employment, lest he be disappointed; but for tourists, the attractions are unlimited.

..... **MAIL COUPON TODAY**

All-Year Club of Southern California,
 Dept. S-N, 629 So. Hill St., Los Angeles, Calif.

Send me free book with complete details (including costs) of a Southern California vacation. Also send free routing by auto, rail, plane, bus. Also send free booklet about counties checked:
 Los Angeles, Orange, Riverside, Santa Barbara, Inyo, San Diego, Imperial, San Bernardino, Ventura, Kern.

Name.....

Street.....

City.....

State..... (Please print name and address)

ALL-YEAR CLUB OF SOUTHERN CALIFORNIA

Courtesy All-Year Club of Southern California

Comparison of these records helps the manager to select the profitable mediums and to discard the unprofitable ones. It also indicates the size and kind of copy that are most productive and the season of the year when the best results may be obtained for each particular proposition.

SALES PROMOTION AND CORRESPONDENCE

Supplementary to the primary work of the advertising department is sales promotion, the purpose of which is not directly making sales so much as it is getting prospective customers to consider the advertised product first when they are in the market for such a product. The monthly house organ is perhaps the outstanding example of what is meant by sales promotion.

A house organ is a periodical publication, ranging in size from a four-page folder to a multipage magazine, containing information of interest to the reader and news about the products and progress of the company. Actual sales are not expected as a direct

result of reading the house organ, but the material presented is selected with a view to entrenching the company so firmly in the prospective customer's mind that it will be the first source he thinks of when he wants goods or services in that line. Sales promotion also includes the preparation of dealers' helps, such as counter cards, counter and window displays, posters, and envelope inserts, or stuffers.

On cards like this, inquiries and orders resulting from advertising may be recorded each day as received.

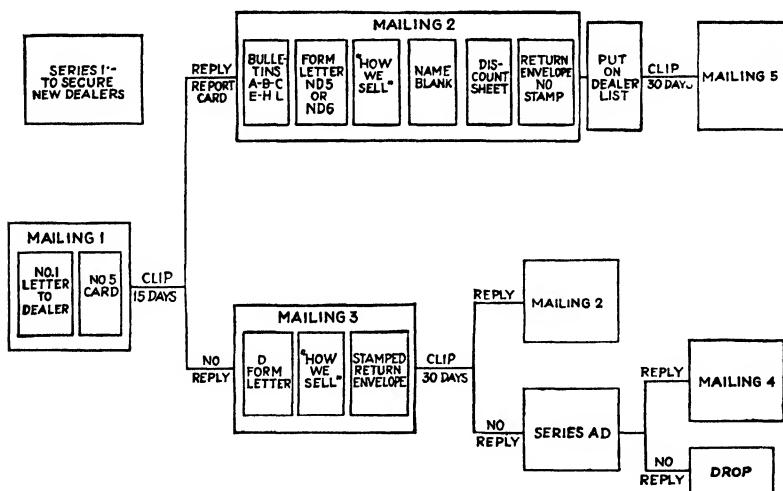
Writing letters is an important part of the work of the sales department. The correspondence of active sales departments is usually rather heavy. The sales manager and his assistants write frequent letters to the salesmen, informing them of changes in the line or in prices and terms, or sending the names of prospective customers for the salesmen to visit. Occasionally, it is also necessary for the sales manager to write an encouraging letter to a salesman whose work seems to be slackening; such letters are sometimes called "pep" or "ginger" letters. Then there are the letters written by customers and prospects and others with whom the company is dealing; these should be answered promptly and adequately.

MAIL SALES

In addition to selling through salesmen and distributors, many concerns also operate a mail-order department, through which sales propositions are presented by mail to customers and prospects. This work often is called *mail sales*, to distinguish it from the mere filling of orders received incidentally through the mail. Mail-order selling involves the use of sales circular letters, usually printed in large quantities by special processes to resemble actual typewritten letters. Some concerns circularize their customers and prospects once or twice a year, while others circularize every week or so.

A series of letters mailed at certain intervals is sometimes called a *follow-up series*, because each letter is expected to follow up the message carried in the preceding letters. Follow-up letters are sent out on a prearranged schedule, which shows just when a certain letter is to be mailed. The accompanying chart shows the mailing schedule of one mail-order house.

Mailing Lists. Whether mailings are frequent or infrequent, a mailing list is required. *Mailing list* is the name usually given to the lists of names and addresses of customers and prospects to whom sales letters and other advertising material are sent. Some



This chart shows when to mail follow-up sales letters. Each letter is mailed 15 or 30 days after the preceding one.

sales managers have mailing lists that require constant attention by the office force to keep them up to date, because of changed addresses, deaths, and similar reasons.

One sales manager, however, considers that it costs more to correct his prospect lists than to make new lists of prospects every year. Of course, the list of customers is kept up to date all the time; but this manager found there were so many changes in the prospect list that it took longer to make the changes than to make new lists. He gets new names from advertisements, clippings, and salesmen, or from lists furnished by directory and mailing companies who make a business of furnishing lists of prospects for almost any use.

Some concerns keep their mailing lists on cards, while others use addressing-machine plates or stencils. Envelopes and circulars may be addressed from cards or lists by hand or on the typewriter; when addressing-machine plates or stencils are used, the work is done more quickly and accurately. Whether cards or stencils are used, they should be filed in some order, so that changes and additions may be made readily.

How Are We Doing? The results obtained from mailings are recorded and charted for the sales manager. By keying each follow-up and form letter to identify the number of customers secured or inquiries received, a record can be made showing which letters are effective and which should be strengthened or discarded. If a letter or mailing shows particularly good results, the sales manager will use that letter again some time, or perhaps get some good points from it for use in other letters. The measure of any effort is the result that it produces, and it is by results that the manager determines which are his best sales letters.

SELLING BY TELEPHONE

Selling by telephone, a profitable medium, is highly competitive. To be successful, several ground rules must be obeyed. Prospects must be carefully selected and calls to them timed when they are least likely to be busy. Sales talks should be well prepared but not memorized. A knowledge of the product is essential as well as proper and courteous use of the telephone.

Telephone selling for many years was confined to the grocer or butcher, calling the homemaker for the day's order. Today, the

bounds are unlimited. Cleaning establishments, advertising salesmen, subscription agents, retailers, and others consider it a worthwhile selling medium.



Courtesy Merrill Lynch, Pierce, Fenner, and Beane

A section of the off-board trading operation of a large brokerage concern, showing telephone order equipment.

Many firms use a follow-up technique. Department stores maintain large staffs of telephone order clerks, separated by glass partitions, who, after thanking a caller for an order or inquiry, try to sell specials of the day. Probably, there is nothing busier in the order-taking line than the trading desk of a large brokerage house, such as shown in the accompanying photograph.

QUESTIONS FOR REVIEW AND DISCUSSION

1. How are the methods of selling selected?
2. What are the customary methods of marketing merchandise?
3. Why should a manufacturer wish to sell direct to consumers instead of through middlemen?
4. To what extent do salesmen require training, direction, and supervision?

5. What four things should a good salesman know? State why, with respect to each.
6. If a salesman can get an order, why should he be concerned with other factors?
7. What is the purpose of salesman training?
8. What is the main difference in methods of training salesmen? Explain.
9. How is a junior salesman often trained by a senior?
10. How long should a salesman-training program take? Explain.
11. How can a salesman-training program be shortened?
12. Do you believe that salesmanship consists of "putting something over" on the customer? Explain.
13. Explain high-pressure tactics in selling. Why are they disadvantageous? Can you think of any circumstances under which they would be justified?
14. Explain this statement: "Selling is not merely order taking."
15. How may a retail salesman build up a following? What is a following?
16. Why do salesmen need direction and supervision? How are they given to them?
17. Comment on sales quotas.
18. What information does a sales manager require? Why?
19. What is the purpose of the sales slip in a retail store?
20. The sales manager wants to know how much the sales department is selling. What two other related points is he interested in?
21. Explain expense ratios.
22. Why is the sales manager interested in territorial sales figures?
23. What value is there in analyzing sales by products?
24. Who is responsible for the work of the advertising department?
25. State three purposes of advertising, and comment briefly on each.
26. Explain briefly the forms of advertising.
27. What services are rendered by advertising agencies?
28. What does advertising in newspapers and magazines involve besides the preparation of copy?
29. Why are advertisements checked, and how?
30. Explain how an advertisement is keyed.
31. What advantages are there in using coupons in advertisements?
32. Explain what sales promotion includes.
33. Comment on the letter-writing activities of the sales department.
34. Explain mail sales, and comment on them.
35. What is a follow-up series of sales letters?

36. Describe or explain mailing lists, and state how they are kept and used.

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees.

1. Ask the sales managers of five local concerns how they keep in contact with their salesmen. Find out if there is an occasional slip-up; if so, how it happens, and what they do about it.
2. Find out if there is any concern in your community that has no salesmen or sales department. If you find such a concern, ask the manager how he sells his product.
3. From the local gas or electric company, find out the procedure followed when an application for service is received. Find out also how long it takes from the time that the application is received until the gas is turned on or the electric current connected.
4. Ask five local sales managers how they determine the results secured by each salesman.
5. Ask the managers of five retail stores how they determine the results secured by each salesperson.
6. A tremendous volume of automobile casualty insurance must be handled by casualty insurance companies at certain times of the year when large numbers of automobiles are registered. Ask the office managers of two casualty insurance companies how they take care of this problem of rush work.

PROBLEMS

1. If a good customer telephoned to a small grocery store and, after placing her order, asked the manager to buy something at a near-by drugstore and deliver it with her grocery order, should the grocer accommodate her? Why or why not?
2. Is it better to have the departments in a retail store remain in the same locations in all seasons so that customers always know where to find them? Or would it be better to shift departments seasonally or from time to time? Why or why not?
3. A store that has been doing most of its business on a credit basis has decided to change to a cash basis. How can the management inform the charge customers of the change without losing their patronage?

4. A hardware store in a small community has decided to open an expensive saw department. How can the manager convince prospective customers that the purchase of an expensive saw is the best buy in the long run?
5. One of the problems of an independent grocery store manager is his inventory. Customers often request articles that the independent storekeeper does not carry in stock. Should he stock an article because of one or two requests and run the chance of having it remain on his shelves? Would it be better to lose the sale?
6. How can a retail merchant in a small community find out whether his advertising is appealing to prospects and is worth its cost?
7. A retail store has in stock certain goods that have a very slow turnover, but it is probable that in time they would turn over completely. The goods are marked up higher than the rest of the stock. Would it be advisable to sell these articles by marking them down and suffer a loss or continue to carry them at the higher markup?
8. One secret of success in the mail-order business is to keep the orders coming in. How can this be done?
9. There are persons who consider radio music a form of relaxation, and there are others who cannot endure its constant clamor. How can the manager of a summer hotel adjust this problem so that both classes of people are reasonably satisfied?
10. A restaurant has a seating capacity of fifty. The theater crowd overflows the place between 10 p.m. and 1 a.m. Many dinner customers, after finishing their meal, remain seated at the table, using valuable space while buying nothing more. How can they be persuaded to leave after finishing, so as to make room for those who want tables?
11. A problem confronting long-distance trucking companies is how to be sure of full return loads on long trips. What can you suggest? Give your reasons.
12. A dry-cleaning enterprise is doing a good business, but there are too many garments in its "not-called-for" department. What can the manager do to eliminate or at least reduce the expense of operating this department and at the same time get the customers to call for their goods?
13. What is the best way for a cleaning business to contact retail prospects? Give your reasons.
14. A concern whose home office is in a large city has salesmen covering territories all over the country. The salesmen mail their

expense sheets to the home office. The problem is to plan some method whereby the sales manager can check their expense accounts and the calls that they make.

15. Should the management of a business select its salesmen from the territory to be canvassed, or should it select men who are strangers to the territory? Give your reasons.
16. If a division manager in a sales office discovers that two salesmen who have adjacent territories differ widely in their sales, although they have the same amount of ability, what can he do about it? Give your reasons.
17. What should be done if sales quotas are too low and the salesmen are selling far above their quotas? Would you hire more salesmen, or would you increase the quotas of the present force? Give your reasons.

CHAPTER XIII

Organization for Handling Sales Orders

When a customer enters a stationery store and asks for a bottle of ink, the clerk turns to the shelf, takes down a bottle, wraps it, and hands it to the customer, who pays for the ink and then leaves, carrying his purchase with him.

How simple this is! And how easy!

There could be only one hitch, and that is the store might not have any ink—an almost impossible situation.

Suppose, however, that the customer was buying for a large office and asked for a 5-gallon keg of ink. Then it might not be so surprising if the store did not have that size on hand.

Suppose, further, that instead of visiting the store personally, the customer telephoned for the ink, or mailed in an order, or gave the order to a salesman for the store. When would the customer get his ink?

In all these cases, it is the same customer, the same store, and the same ink. The only difference is in the way in which the customer gives his order. A customer entering a store expects immediate service; when he sends the order to the store in any other way, he does not know when he will receive the goods ordered, unless he telephoned first and ascertained that they were in stock and could and would be delivered at once.

CONTROLLING DELAY IN HANDLING ORDERS

If the goods have to be made up, he cannot expect immediate delivery. If they are in stock, there still may be reasons why delivery cannot be made promptly. For example:

1. Other orders may be ahead of his.
2. The delivery truck may be out on a trip.
3. The store may be shorthanded.
4. Another customer's order may have been put ahead of his.
5. His credit may have to be looked up.
6. The order-filling routine may be cumbersome and take more time than is reasonable.
7. His order may be lost or mislaid.

All seven situations apply to the way that orders are handled by many concerns. Because some of them are reasonable does not mean that they are also justifiable or excusable. And it is unreasonable to allow some of these situations to continue, for they are controllable.

The first two reasons are excusable and to some extent uncontrollable. So also is the third, unless the situation is the result of a store's being chronically understaffed. The fourth situation is wholly controllable and is the result of either a lack of system or of favoritism—perhaps because of friendship between an employee and certain customers. Except where priorities are in effect, this form of favoritism is rather common. To control it, all that is needed is the intention and the will to do so.

The time required for the fifth situation depends not only on the effectiveness of the store's credit-checking procedure, but also on the amount of credit information accompanying the order. The sixth and seventh situations are obviously the result of poor management and are inexcusable, although they are probably among the most frequent causes of delay in handling sales orders.

Under good management, delays due to 4, 6, and 7 would be the exception rather than the rule. If they occur frequently, it is obvious that good management is lacking; that is, poor management is present somewhere.

PROMPT ORDER FILLING IS A COMMON PROBLEM

If a personal purchase of a bottle of ink takes less than a minute, why should any other method of purchasing take a great deal longer?

In the answer to this question lies the solution to a problem that affects all businesses. Some concerns try to do something about it; some apparently do not care; and many doubtless feel

that there is probably nothing they can do about it and therefore do not even try. It is those in the last group who are most likely to complain about competition, when the main trouble is simply poor management. How else can you explain why, of two manufacturers of the same product, selling to the same trade in a similar manner, one takes 50 minutes an order, and the other, 450 minutes? It is obvious that there is considerable room for improvement here.

A Common-sense Approach. Since the first principle of management is to "determine the objective," let us apply that common-sense principle to the problem of handling orders.

What is the objective of handling orders? Obviously, it is to get the order filled and shipped to the customer as quickly as possible. Why? Well, for two reasons.

Payment May Be Expected Sooner. The first reason is that the sooner the order is shipped, the sooner payment may be expected for the goods. If goods are sold on 30-day terms, the 30-day period does not start until the day that the goods are shipped and billed, and every day of delay in getting the order shipped means one more day the seller must wait for his money. This is the realistic business point of view and may have more weight than some other arguments.

Customers Are Entitled to Service. The second reason for shipping orders as quickly as possible is that customers, in that way, receive the service to which they are entitled. If two or more competitors charge the same price for the same quality of goods, but one gives better service, that concern has the best possible talking point in soliciting business. A business concern is not doing a favor to its customers by shipping orders promptly; the customers are doing a favor to the business concern by placing their orders with that particular company. The least that can be done is to see that the orders are filled and shipped without delay.

Employees who do not realize how much effort is required to gain new business are likely to take the attitude that there are plenty of potential customers, and if one objects to the service rendered by a concern, he can go elsewhere. This indifference of minor employees is a prevalent personnel problem. Management cannot be too watchful and insistent on the right attitude of employees on the customer-contact level.

A large hosiery company endeavors to make sure that each of the many small orders coming into its special redye department is shipped out on the day promised. In the special-rush shipping room, a row of trays or boxes is built on the shipping bench. These boxes are placed on top of the bench near the back, leaving room for work on the front, and are labeled Monday, Tuesday, Wednesday, and so on. There are twelve boxes in the row—enough not only for the current week, but also for a week in advance.

Each box holds the orders due to be shipped on a particular day. If the day is Tuesday, for instance, all the orders in the Tuesday box should be finished before quitting time. When any of them seem to be held up, notice is sent at once to the manufacturing department to push them through. If all the orders in today's box have been shipped, those in tomorrow's box may be started and completed ahead of time.

Beside distributing the orders according to the promised dates, this row of boxes gives a visual idea of the amount of *work ahead* of the department. Any order blanks appearing in yesterday's box claim special attention until the goods are shipped. The scheme is better than card signals because in itself it constitutes the work to be handled, as well as the signals.

PLANNING A ROUTINE FOR FILLING ORDERS

In planning a routine for filling orders, it is a good idea to start with the shipment of the order and *work backward* to the receipt of the order. Only in this way can the planner be sure of including only those steps that contribute to the filling and shipping of the order. No other steps are included at this time, no matter how interesting or desirable they may seem to be.

To realize more fully that we are working backward in the explanation that follows, the steps in filling an order are listed here from 11 to 1 instead of in the usual sequence.

Step
Number

11. The goods are shipped by express, freight, or motor truck.
10. An address label is prepared to place on the package, or the address is stenciled on the crate.

9. An express receipt is made out if the goods are to be shipped by express, or a bill of lading prepared if by rail or motor freight.
8. The goods are checked, then packed. A packing slip aids the checking, and standard-sized containers contribute to quick and economical packing.
7. The goods are moved to the packing room from the stock room, manufacturing department, or assembly floor.
6. The order is selected from stock or is manufactured.
5. Each department that handles the order is notified of its part of the work.
4. The credit department approves the order.
3. The order is examined for accuracy.
2. The order is numbered and registered to prevent its loss.
1. The order is received and stamped with the time of receipt.

SHIPPING THE ORDER

The final step in filling an order is giving the shipment to an express or freight trucker or delivering it in a company-owned truck. Express and freight truckers call regularly on business concerns that use their services constantly. In other cases, it is necessary to telephone and ask the truck company to call at a specified time, if possible, or to find out the time when the expressman is in the neighborhood. If the expressman has a daily pickup route, the telephone call should be made as early in the day as possible.

If the expressman calls daily, it is important to schedule packing of shipments so that they will be ready when he calls, and not be held over a second day simply through negligence. If goods are to go by rail freight, it is necessary to know the time when shipments should be at a particular freight house; or if by parcel post, the best time for delivery at the post office. All this information should be at hand and kept up to date. There is no excuse for a slip-up here.

MAKING OUT THE SHIPPING PAPERS

The two steps before delivering the shipment to the shipper are labeling the packages and making out the shipping papers, which consist of the bill of lading or the express receipt (described in Chapter XVII). In many cases, the label and the bill of lading are made out early in the order routine, and the shipping

department merely puts the labels on the corresponding shipments and sees that the expressman properly signs the receipt for the goods when he takes them.

If the label is stenciled on the box or crate, this is usually done in the shipping room. Weights are taken and checked in the shipping room and entered on the shipping papers. In some lines of business, merchandise is shipped in standard lots in standard-sized cartons on which the weight is already printed. Likewise, in many concerns, the company's products are already printed on the bill of lading, thus saving the time otherwise required to write in this information.

PACKING AND CHECKING

The next preceding step is packing and checking. In the packing room are boxes and cartons of standard sizes, or if crating is required, lumber cut to standard lengths. Also, a standard method of packing reduces the time required to pack the goods. As the goods are packed, each item is checked on a packing list, which is then initialed and placed inside the package before it is sealed. In some concerns, the label is affixed or the address is stenciled on at this time.

ASSEMBLING THE ORDER

Sometimes, the various parts of an order may come from different departments; if the entire order is to be shipped together, provision should be made for holding each part as it arrives at the packing room, and then bringing all together.

The next preceding step is moving the goods to the packing room from the stock room, manufacturing department, or assembly floor. This would be done on trucks or conveyers.

THIS SHIPMENT WAS CHECKED TWICE UNPACK WITH CARE

SHORTAGES ARISE FROM

- (1) GOODS BEING "LEFT IN CASES" OR "THROWN OUT WITH THE PACKING"
- (2) GOODS BEING "USED OR SOLD BEFORE THEY ARE CHECKED AND EXAMINED"
- (3) "TWO OR MORE SHIPMENTS BEING UNPACKED AT THE SAME TIME, CAUSING CONFUSION"
- (4) CASES BEING "OPEN" OR "BROKEN IN TRANSIT" AND GOODS STOLEN OR LOST FOR WHICH THE TRANSPORTATION COMPANY IS LIABLE

YOU SHOULD CALL A REPRESENTATIVE OF THE TRANSPORTATION COMPANY FOR INSPECTION OF CASE AND CONTENTS THIS IS SOLELY FOR YOUR PROTECTION

AFTER CHECKING AGAINST THESE FOUR COMMON CAUSES FOR APPARENT ERROR, IF THERE STILL SEEMS TO BE SOMETHING WRONG, PLEASE NOTIFY US IN WRITING IMMEDIATELY.

SHORTAGE CLAIMS WILL NOT BE CONSIDERED UNLESS MADE WITHIN 24 HOURS AFTER RECEIPT OF GOODS

EASTMAN KODAK STORES, INC.

SELECTING THE ITEMS FROM STOCK

The next preceding step depends on the nature of the order. If it is a stock order, the items are "picked" off the shelves, bins, or racks and sent to the packing room with the packing list. If it is a manufacturing order, the goods must be processed and inspected and then sent to the packing room with a copy of the order.

NOTIFYING DEPARTMENTS CONCERNED

Before the goods are manufactured, assembled, or picked from stock, the departments concerned with the order must be notified and given authority to go ahead with the work. For a stock order, this requires merely a list of the items ordered; for the assembling order, a list of parts and whatever instructions are necessary for assembling; for a manufacturing order, a production order may be issued. By sending a copy of the order to each department that is concerned with it, the work connected with the order can be handled concurrently, as was explained and illustrated by a chart in Chapter VII.

CREDIT APPROVAL

The next preceding step is getting credit approval for the order. Credit is checked to determine the probability of the customer's paying the bill when it is due. Whether credit is checked at this point in the routine or at some other point, depends on the practice of the individual concern.

Credit is always checked when the order is from a new customer, when the name of a present customer is not familiar, when the customer owes for previous shipments, and when the order is other than a stock order. The names of steady customers who pay promptly become familiar to the credit man; likewise, he is familiar with the names of customers who require following up for collection.

WHERE DO COPIES OF THE ORDER COME FROM?

In each of the steps mentioned, a copy of the order in some form has been used. In the shipping department was the bill of lading; in the packing room, a packing slip; in the stock room, a copy of the order; in the assembling room, an assembling order;

in the factory, a production order; in the credit department, a copy of the order. Here are six copies of the order—actually eight, since the bill of lading set has three copies.

Where did these copies come from, and how were they made? Were five of them the same copy, passed from one department to another?

CONCURRENT OR PARALLEL OPERATIONS

These questions bring up an important point about the handling of sales orders, which is applicable to other routines as well. It concerns the desirability of consecutive operations as against concurrent or parallel operations.

Consecutive operations follow each other in order, singly: the first step is taken, then the second, then the third, and so on. No step is taken before the preceding one has been completed. Obviously, a series of consecutive operations will take longer than if two or more are handled concurrently, as explained in Chapter VII.

The order routine provides an excellent opportunity for saving time by performing operations concurrently rather than consecutively. For example, enough copies of the order are made so that the credit department may have one, and a copy each to the stock, packing, and shipping rooms. This makes it possible for the stock clerk to select the items while the credit department is checking the customer's credit. If there is some delay in credit passing, the packing department need not be delayed, and the shipping department can have the shipment ready, awaiting the O.K. from the credit department. If this is given, the goods are shipped without delay. If the credit department turns down the order, the shipping department returns the goods to stock through the receiving room, similar to other incoming shipments.

Where is the saving when a prepared shipment has to be returned to stock? In such case, there is no saving. But where orders are for regular customers, the time saved by concurrent handling of the order is a real factor in giving first-class service.

APPLICABLE TO STOCK ORDERS ONLY

Delayed credit approval applies to stock orders only. For manufacturing orders, where processing is involved and where the

finished product would be useless except to a certain customer, the fabricating process should not be started on any order until the customer's credit has been O.K.'d. Nevertheless, it is often possible to do a good deal of the preliminary paper work, even though the actual processing of material is deferred.

This is not a hard and fast rule, but one that may be applied wherever desirable and helpful. Since the main objective in handling sales orders is to ship the goods to the customer as soon as possible, any reasonable steps to that end are justified, bearing in mind that no shipment is made without the credit man's O.K. Small stock orders, from whomever received, may be handled concurrently, since the risk is not large.

It may appear sometimes to be easier, cheaper, and quicker to use the customer's original order instead of making several copies for concurrent use. It is easier and cheaper, but not always quicker. The chances for delay are greater, for two reasons. (1) No department can perform its part until the preceding department has finished with the order. (2) Without a uniform order blank, time is wasted in the various departments by examining differently written orders to be sure that nothing has been overlooked. By making enough uniform copies for every department that handles the order, concurrent operations will speed the order to the customers.

METHODS OF MAKING MULTICOPIES

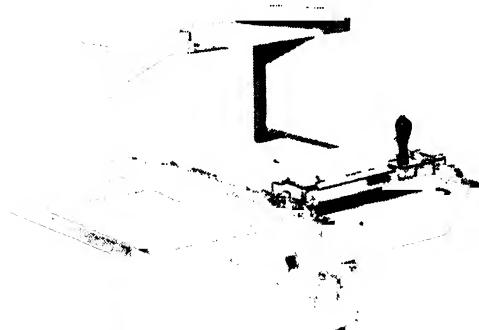
Multicopies of an order may be made in several ways. Where only a few copies are to be made and a small number of orders handled, an ordinary typewriter with carbon paper may be used. Electric typewriters, such as IBM, Remington, Royal, and Underwood, will make up to twenty legible carbon copies, provided very thin paper and very thin carbon sheets are used.

Billing Machines. The Underwood-Elliott-Fisher billing machine is a flat-bed writing machine with weighted type keys that help to give a powerful stroke; this machine is also widely used in making multiple copies of orders. Up to fifteen copies may be made, using carbon. The paper need not be too thin to allow a reasonable amount of handling.

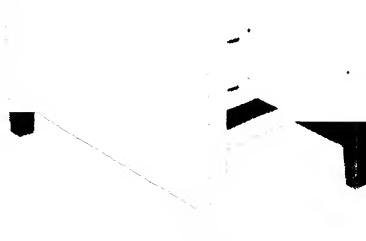
The Underwood billing machine is another machine widely used for this purpose. In effect, it is a typewriter to which an

attachment has been affixed for quickly inserting and removing carbons between the various copies.

In making multiple copies on a typewriter, considerable time would be lost in inserting carbon paper between the various sheets. But a number of ways have been developed for doing this quickly. The simplest is a mechanism holding several circular disks of carbon that is attached to the typewriter in such a way that one disk may be lowered between two sheets of paper.



Courtesy Ditto, Incorporated
A flat-bed gelatin duplicator.



Another plan is to purchase order sets made up with one-time carbon already inserted between the sheets. One set at a time is placed in the typewriter; after typing, the set is removed, and the copies "snapped" out.

The continuous form method for writing copies is probably more widely used than any other. The forms are printed in continuous strips and collated in sets by the printer. When one end of the strip is inserted in the writing machine, the rest are pulled through, a set at a time, as needed. These continuous forms may be obtained with one-time carbon already inserted, or they may be used with a carbon-inserting device, which mechanically threads the carbon between the sheets and removes it after the typing is completed.

Duplicating Machines. An entirely different machine widely used for making multiple copies of orders is the gelatin duplicator, also called the hectograph. This device has a flat gelatin surface on which is laid a master copy, printed in hectograph ink and typed with a hectograph ribbon or carbon. The moist gelatin surface loosens the ink, which transfers to the gelatin surface, from which up to fifty or more copies may be made. One advantage of the flat-bed gelatin duplicator is that portions of the original may be blanked out on some copies and included in others.

Rotary duplicators of the gelatin, spirit, and stencil type also may be used for multicopy writing. A development of the mimeograph is a double stencil that may be used for running off the preliminary copies. Later, additional information may be cut on the second stencil, which is then run off, without again cutting all the information on the first stencil.

HOW MANY COPIES ARE NEEDED?

Now that we have seen how multiple copies may be made, let us return to the sales order routine and decide how many copies are necessary or desirable to obtain the best results from concurrent operations. Obviously, each department that handles the order should have a copy. Here is a list of the departments with their functions:

1. Credit department (to pass the credit)
2. Stock room (to fill the order)
3. Assembling floor (to know what is wanted)
4. Manufacturing department (to serve as a basis for manufacturing)
5. Packing room (packing slip)
6. Shipping room (bills of lading)

In looking over this list, a few questions occur.

Is a copy needed to serve as a control over the others? The ribbon copy of the order should be kept at an order control desk, as described later.

After the stock clerk has sent his copy of the order to the packing room with the goods, what record has he of the goods taken off the shelves? If no record is made of goods removed, no one

A study by the American Iron and Steel Institute showed that more than one hundred separate printed forms are filled out by steel company employees after receipt of a customer's order.

About fifty different forms are used in entering an order on the books and routing it through the mills. And multiple copies are made of many of the forms so that duplicates can be routed to various departments and individuals for filling in essential data.

The first step is to make ten copies of a master order form that specifies not only what the customer has ordered, but also such additional details as credit terms, shipping information, standard metallurgical specifications, and any special instructions relating to the particular customer's requirements that might be obtained from previous experience.

Copies of the master order go to the company's sales office in the district in which the customer is located, to the billing, credit, and manufacturing research departments, to the manager of production, and to the principal production and inspection divisions through which the order will pass.

Later, the manufacturing department makes up a production order, containing much of the information on the master order plus certain additional details. At least seven copies of the production order are made and distributed to foremen and others who actually work on the order during production and shipment.

will know when to replenish the stock before it runs out. Therefore, send two copies of the order to the stock room. From one, the order can be filled, and that copy sent along to the packing room with the goods; the other is held for entry on the stock records.

When there are two or more stock rooms, two copies should be sent to each, so that each stock clerk may fill his part of the order without waiting for someone else's copy. The packing slip will go direct from the order desk to the packing room, so that the packers can check the completeness of the order and know when to pack and seal.

The manufacturing department also may need more than one copy.

The shipping department receives three copies of the bill of lading. Some concerns send the shipping department a copy of the entire order, since the bill of lading does not always show all the information on the order, only that part needed for shipping directions. After receiving its copy, the shipping department knows the form of transportation required and proceeds accordingly.



Courtesy Ditto, Incorporated

How would you facilitate the work of this stock clerk?

A DESIRABLE CONTROL

The credit department needs only one copy, which it sends to the shipping room with the credit O.K. or other instructions. There it is matched with the shipping department copy and held until the goods arrive from the packing room.

In some concerns, the credit department copy is returned to the order desk, which notes the decision of the credit department and in turn notifies the shipping department. The advantage of this arrangement is that the order desk thus knows at all times the status of each order.

To carry this control still further, the order department should be notified as each department finishes with its part of the order. This notification may be effected by furnishing another copy of the order for the stock room on a distinctively colored paper or by a special slip bearing the order number for identification. One advantage of using an extra copy of the order is that, if any of the items are not in stock, the fact may be noted on the copy, thereby notifying the order desk, which can proceed to put through a back order.

Sometimes, a copy is sent to the customer as acknowledgment of the receipt of his order, so that he can check whether the order has been entered correctly.

EXAMINING THE ORDER

The next step backward is the examination of the order before it is given to the order writer. The order is examined for two reasons: first, to make sure that all the information needed to fill the

Incorrect writing of names and initials on order blanks causes errors in billing and other records. It causes errors on shipping tags, invoices, and statements, and as a result, causes disgruntled customers. A good rule is to require that all names be printed by hand on the original order. Then there is no excuse to go wrong in billing or letter writing.

order accurately is given, and second, to see that the name and address of the customer are legible and correct. Occasionally, special billing instructions may be necessary; this is the time to add them. The following information should appear on every order:

1. Name and address to which goods are to be shipped
2. Name and address to which goods are to be charged
3. How and when goods are to be shipped
4. Description of goods ordered, with stock numbers, sizes, and any other features necessary to identify them

5. Quantity ordered
6. Customer's order number and date
7. Company order number and date
8. Name of salesman or branch that sold the order
9. Prices and terms (need not appear on all copies, if not desired)
10. Any special directions or instructions



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When the salesman writes the order is the best time to ensure its accuracy.

This is the time to check with the customer or salesman any points that are not clear, thereby assuring the correctness of the multicopies when made. Seeing that the above information appears on each order makes it possible (1) to ship the correct items at the desired time to the right customer, (2) to provide an accurate control over the progress of the order, and (3) to make correct charges and credits, thus avoiding delay and misunderstanding.

BACK TO THE FIRST THREE STEPS

What has taken place before the order examiner checks the order? Now we are back to the first three steps of the order routine:

1. Order is received in the mail.
2. Date of receipt is stamped on it.
3. Order is registered and given an order number.

Some record, however brief, should be made of each order received, so that none may be lost or mislaid without evidence that it actually was received. Although the amount of information recorded in the *order register* varies with different concerns, the minimum would include the name and address of the customer, a brief memorandum of what was ordered, and the date received. Frequently, the order register carries the order numbers also, so that, as an order is registered, the next consecutive number may be placed on it and that number typed on all the multicopies when they are made.

After the multicopies have been made, the ribbon copy is compared with the customer's original copy to eliminate any errors. This comparison may be made at the order desk, which schedules the order and then separates the copies for distribution to the departments concerned.

ANOTHER TIMESAVER

Many concerns make out the invoice at the same time that the multicopies are made. This is a timesaver in the case of stock orders and with all orders where no changes are likely, since it saves a separate billing operation later. If an item is out of stock, the customer's invoice should not show that item, unless it is marked "out of stock" or "back ordered." Back ordering simply means putting through a new order for an item that is out of stock. Some concerns, instead of marking the invoice "back ordered," make out a new invoice showing only the items shipped.

One way to avoid the necessity of making a new invoice when an item is out of stock is to ascertain that fact before the multicopies are made. There are many ways of doing this: some involve a lot of work, and others do not. Fundamentally, what is required is a *perpetual inventory record* to be kept at the order desk. As items are ordered, they are deducted from the stock on hand; thus the order clerk can tell at a glance whether sufficient stock is on hand to fill the order.

Unless this same record is kept in the stock room, it may be necessary for the order clerk to notify the stock clerk when the quantity on hand approaches the *order point*—that is, the point at which the order for a new supply must be placed—to avoid running out before the new supply arrives.

WATCHING THE STOCK

In one concern, the stock clerk keeps track of stock by a *reserve plan*. That is, a stated number of boxes of each item are plainly marked reserve so that when the first box of that lot is taken, or as the reserve quantity is reached, a manufacturing order is placed to replenish the stock.

There are six order clerks in the order department of this concern, examining the orders and editing them for accuracy and completeness, as well as noting on each order the number of copies required. To keep these order clerks informed of the condition of stock, a long blackboard hangs in the front of the order room where everyone can easily see it. On it are noted the items of stock that are below the order point, together with the balance of stock on hand, thus showing the order clerk whether there is enough to fill an order. Any item marked with a red O is completely out of stock. For these items, the clerk makes out a back order. Any item not on the blackboard is in stock.

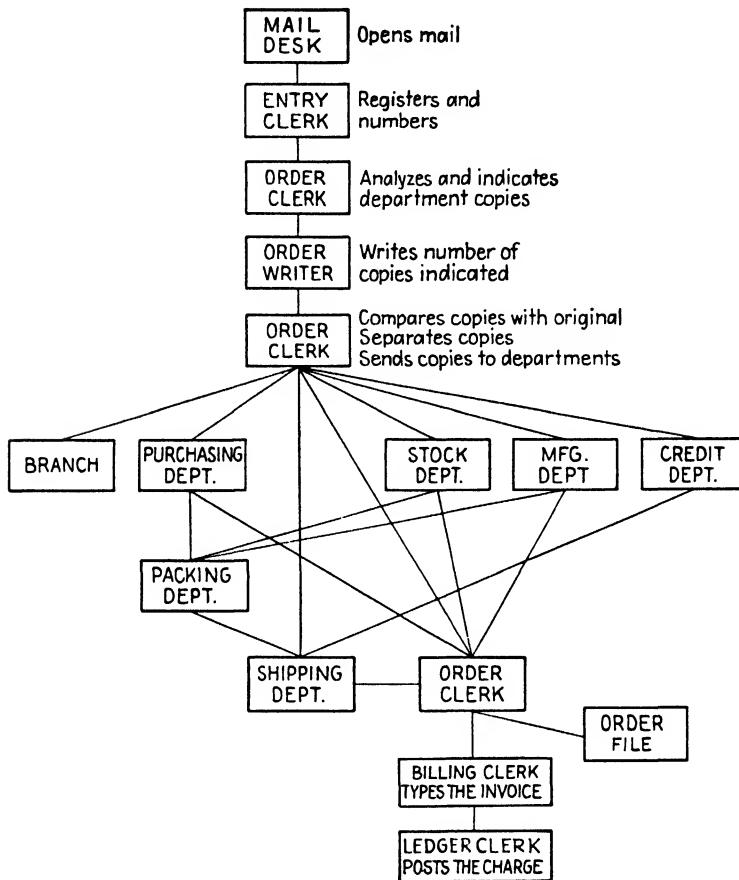
THE ORDER DEPARTMENT

Our study of order handling started with the shipping department and worked backward. That is usually the best way to study any routine. But it might be helpful now to start at the beginning of the order routine and follow its normal course as each step is taken. Thus we shall have a complete picture.

Many concerns establish an order desk or order department that is responsible for all orders received by mail or telephone, interpreting them, checking their accuracy, scheduling them, checking their prompt and accurate handling, and following them through to shipment and delivery to the customer. Through the order department, the sales manager knows at all times where the order is, what progress is being made on it, and when it will be ready for shipment. Orders are marked off on an order register as fast as they are shipped, leaving those not marked off to be followed up. In a small office, it is often possible for one person to attend to all the office details connected with the handling of orders. In any case, certain steps are necessary, as shown in the accompanying charts.

Orders are received in many ways, by telephone, by telegraph,

by mail, and also brought in by the salesman or by the customer himself. The first step is to register them.



This chart shows a sales-order routine. Almost any other routine may be similarly charted.

REGISTERING THE ORDER

Each company has its own way of registering its orders, but the purpose is always the same—to make an accurate record of each, so that if a question should arise, the details can be found immediately by referring to the order register. The following information usually is recorded:

1. Date
2. Number of the order

3. Name of customer
4. What is ordered
5. Quantities ordered
6. Amount of sale
7. Terms
8. How the order was obtained

Standard Practice Instructions for Order Examiners

- A. Check the following items thoroughly, and see that they appear on the order.
 1. Proprietor's name
 2. Store name
 3. Street address
 4. Town, city, and state
 5. Correct sales territory
 6. Terms
 7. Ship when: make it at once or a definite future date
 8. How ship: express, parcel post, freight, air, best way
 9. Salesman: see that his name is in full, *not* initials
 10. Order number
- B. Under article wanted, follow catalogue closely.
 1. Give full details on each item; do not allow *any* abbreviations
 2. Check prices closely; notify salesman of errors
 3. Add the column of figures accurately

Not only does this registration give the information about each order, but it is also possible to obtain the total sales for each day simply by totaling the Amount of Sale column. Under How the Order Was Obtained, there may be two or three columns, or even more if desired, each column showing a source of sale, and a check mark being sufficient to indicate the source.

After the order is registered, it must be filled. Many concerns have the order approved by the credit department immediately after registering and before the multicopies are made. Others use the concurrent or parallel plan previously described.

ANALYZING THE ORDER

After credit approval, or after registering, whichever plan is followed, the order goes to the analysis clerk, who divides all orders into three classes, those that (1) can be filled from stock on hand, (2) must be purchased from other concerns, and (3) must be manufactured. Some orders might come under all three of these classes. But most can be divided so that they will fall into one or another of these groups. This is called *analyzing the order*.

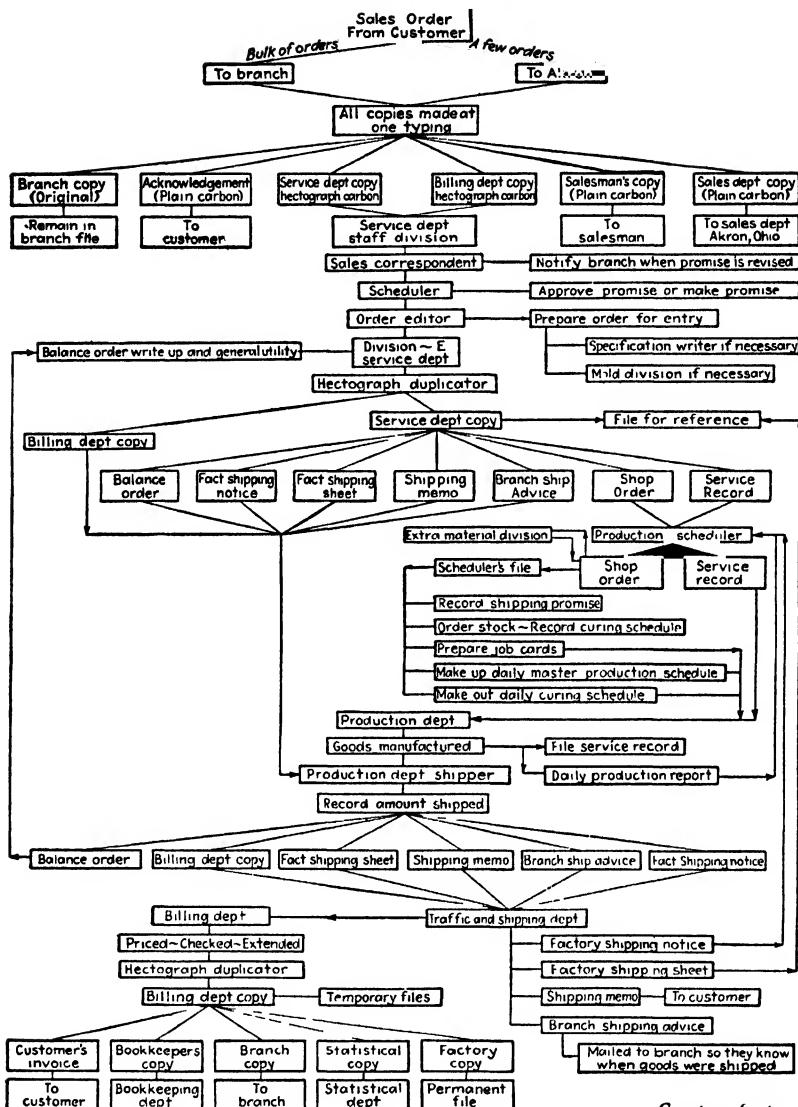
Orders for goods in stock can be filled at once by the stock room, while the purchasing department has to buy goods that must be purchased outside, and those that have to be manufactured must be put through the shop or factory. It would be wasteful to send a stock order to the purchasing department, and there would be no reason for sending a purchase order to the factory. In other words, orders should go only to those departments concerned with the order. A purchasing order would go to the purchasing department; a stock order would go to the stock room; and a factory order would go to the factory.

WHY COPIES OF THE ORDER ARE MADE

It is desirable to make enough copies of the order so that there will be one for each department concerned. Each copy must contain full directions for handling the order, as well as where to send it and how to send it, whether by freight, express, parcel post, motor truck, or airplane.

Orders usually are written on standard order blanks, which provide space not only for the goods ordered, but also for other information necessary to an intelligent handling of the order, such as the customer's name and address, the terms on which the goods were sold, when and where the order is to be shipped, and any special directions or instructions.

In addition to the copies for the departments that make up the order, certain other departments also require copies. Some concerns do not make more than three or four copies of an order; others make as many as fifteen. The original is sent directly to the shipping department; another is filed alphabetically in the un-filled-order files; one copy passes to the accounting department and is filed numerically; the fourth copy is used for the statistical record.



Courtesy System

This chart of an order routine in a large rubber company is not so complicated as it seems. Study each step, and see if you can determine the reason for it.

When the order has been filled, the shipping department returns its copy to the order department with the shipping receipt attached. The bill is then made out, and the unfilled-order copy is removed from the unfilled-order file and filed with the filled orders.

It is also possible, in making out orders, to include in the same operation the invoice and an acknowledgment of the order. Where orders pass through the factory, as many copies are made as will be needed in the different shops. When an order comes in for a machine that is to be shipped complete, this method can be expanded still further.

With one writing, copies may be made for acknowledging the order to the salesman and to the customer, an order to the factory, a notice to the traffic department, two notices to the treasurer, two copies for the order department, a notice to the salesman with credit of commission, a notice to the accounting department to credit the salesman's commission, and a ledger sheet for the accounting department. After the required number of copies has been made, each copy is sent to the proper department for its part in putting the order through.

PRICING AND CALCULATING THE ITEMS

After the goods ordered have been shipped or delivered to the customer, the order blank goes to the pricing clerk (in some concerns before delivery), who fills in the price of each item. In some offices, this clerk also calculates the extensions, that is, multiplies the price of each unit by the number of units. This calculation may be made in three ways:

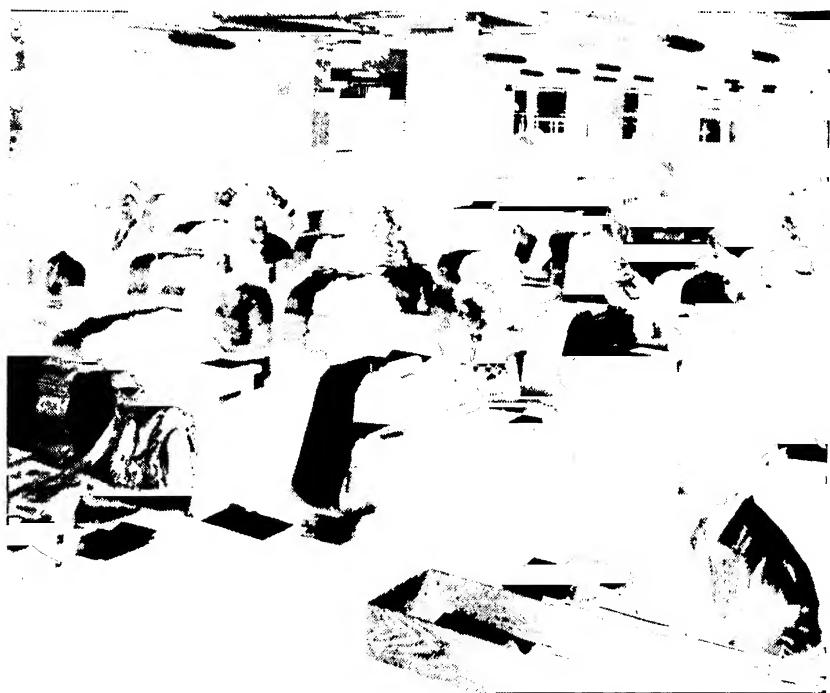
1. Mentally. For simple computations, mental calculation is the quickest, provided the clerk is accurate.
2. On a calculating machine. This method is accurate and quick, especially if discounts are involved.
3. From tables of figures. If the concern's sales are confined to one or two products, the use of tables in computing extensions and discounts is even faster than calculating machines. Such tables are easily prepared.

If the footings (totals of extensions) are to be obtained by the pricing clerk, this may be done mentally, on the calculating machine, or preferably on an adding and listing machine. Usually, the footings are left to the billing-machine operator, if the billing machine has an adding mechanism.

BILLING THE ORDERS

From the pricing clerk, the order blank goes to the billing department, where clerks sit at billing machines and make out in-

voices. A billing machine looks something like a typewriter, and it may have an adding and calculating mechanism, which speeds up the writing of the invoice. By means of carbon paper, two copies and sometimes three or more are produced. The original copy is sent to the customer. The second copy is sent to the book-keeping department. If there is a third copy, it is filed with copies of other bills for the same customer.



Courtesy Underwood Corporation

Billing-machine operators make out invoices that pass through the machines in long strips.

Occasionally, an order may be delayed somewhere. In such cases, the order department must follow up and find out where it is and what is causing the delay. If a shipping date is scheduled when the order is entered on the order register, the orders can be marked off the schedule as fast as they are shipped, leaving those not marked off to be followed up. Such a record clearly shows what has been done with each order and facilitates any follow-ups that may be necessary.

CYCLE BILLING

All public utility companies send bills to their customers once a month; so do department stores. Formerly the bills were mailed or delivered so as to reach the customer on the first of the month or shortly thereafter. This put a terrific burden on the bookkeepers and billing clerks, who often had to work overtime to get out the bills on time. Where meters had to be read, the meter readers also were rushed.

Then someone decided that perhaps the work of billing could be spread out over the month instead of compressed into a few days. Along with this, the rush in the mailing department could be leveled out by mailing part of the bills every day or every few days.

It was necessary to divide the customers into several groups, so that one group would get its bills on the first of the month, another group on the fifth, another on the tenth, and so on. Where billing depends on meter reading, a geographical breakdown of customers would enable all customers in a certain area to have their meters read on or about the same time each month. Where the charge does not depend on meter reading, an alphabetical breakdown would be possible, so that the customers in the same alphabetical group would receive their bills at the same time each month. Public utilities have used cycle billing for years; department stores and other retail outlets started using it during World War II, and the number of stores using it has increased each year.

QUESTIONS FOR REVIEW AND DISCUSSION

1. Should a stationery store always stock 5-gallon kegs of ink to be in position to fill an order for one? Why or why not?
2. Which customer is more important, the one who comes to a store with his order, or the one who mails or telephones his order? Why?
3. Would your answer to question 2 be different if one of the customers is a charge customer? Why or why not?
4. Which of the seven reasons for delay in filling an order seem reasonable, and which seem unreasonable? Explain.
5. Explain this statement: "The main trouble is simply poor management." Do you believe it?

6. Why do we start our study of the sales-order routine with a statement of the objective of the routine?
7. What is the objective of handling orders? Explain.
8. Which of the two reasons given for prompt handling of orders is the more important? Explain.
9. Explain this statement: "A business concern is not doing a favor to its customers by shipping orders promptly." Do you believe this? Could there be a time when it is not true?
10. Describe and explain the last step in filling an order.
11. List the preceding steps in order, describing and explaining the reason for each.
12. How are departments that are concerned with handling orders notified of what is wanted? Do you think that is the best way? Explain.
13. What is the difference between consecutive operations and concurrent ones? Which are better? Why or why not?
14. To what extent is credit checked before passing an order? Why?
15. When do you think credit should be looked up? Why?
16. Would your answer to question 15 vary according to the type of order? Explain.
17. Why is it not easier, quicker, and cheaper to use the original order instead of making several copies of it?
18. List and describe or explain the different ways in which multicopies of sales order may be made.
19. How many and what departments should receive copies of an order? Give your reasons for each.
20. How can the stock clerk control stock while orders are being filled?
21. What is the advantage of having an order desk or an order department? What is its main responsibility?
22. What is done to an order before any copies of it are made? Why? Consider what might happen if it is not done.
23. What information should appear on every sales order? Why?
24. What is meant by registering an order? Is it desirable? Why or why not?
25. What are the advantages and disadvantages of making out the invoice when multicopies of the order are made?
26. Compare the information that appears on the invoice with that appearing on the order.
27. Explain back ordering, and state its purpose.
28. How can an order clerk know whether all the items on an order

are in stock? How does one concern keep its order clerks informed of stock shortages?

29. Describe how the pricing of items on order blanks is handled.
30. Describe or explain billing of orders.
31. What are the advantages of cycle billing? Do you think there are any disadvantages?

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees.

1. Find out from some business concerns in your community their methods of pricing the items on their sales orders before the bills are made out.
2. Find out how sales orders are handled in one of the following lines of business in your community.

Retail store	Automobile company (or garage)
Mail-order house	Telephone company
Wholesale house	Express company
Manufacturer (factory)	Railroad
Insurance company	Hotel

3. Should an order be filled before credit is approved or afterward? Before answering this question, discuss it with several businessmen and with your classmates.
4. Procure from some local business firm a copy of its sales order blank. If the company makes more than one copy of its orders, secure as many copies as are usually made. Find out the purpose of each item printed on the blank, and report your findings in writing.

PROBLEMS

1. How can you ensure complete and accurate filling out of sales orders by traveling salesmen? Give your reasons.
2. In one concern, there is constant friction between the salesmen and the order department. The salesmen, who understand the particular desires of their customers, explain to the order department what standards the goods must attain. But the order department seldom understands exactly what is wanted and often does not fill an order according to the salesman's directions. When the salesman sees the customer again, he has a hard time selling him, and blames

the order department for the loss of sales. How can better coordination be attained? Who is to blame? Give your reasons.

3. The order department of one concern is receiving many complaints, such as orders not complete, received late, and received in damaged condition. How can this unsatisfactory situation be corrected? Give your reasons.
4. The head of the order department of a new company has informed the manufacturing department and stock room that he has been getting many complaints of nonfilled orders. These two departments, after checking their records, find no trace of the orders ever having been received. How can this situation be remedied? Give your reasons.
5. In another concern, time is spent in editing orders. This is necessary, but seems to take so long that the shipments are delayed. How can the time spent in an indispensable step be saved? Give your reasons.
6. How can an order department keep a careful check on all orders so that none will be lost and yet not maintain a large filing system? Give your reasons.
7. Many orders require technical advice that only a few employees can give, and sometimes the orders pile up on the technical men. Even if only part of an order requires this attention, the entire order is delayed too long. How can this problem be overcome? Give your reasons.
8. How can routine orders from dealers be handled so that they do not have to go through all the steps necessary in the handling of consumers' orders?

CHAPTER XIV

Organization for Credit Management

The greater part of business is transacted on a credit basis. That is, instead of paying for purchases at the time they are made, buyers arrange with sellers to make payment at a date anywhere from thirty days to several months later. Goods sold on credit are charged to the customer's account, and the customer is expected to pay at the time that the account is due—that is, at the time agreed on. Such an arrangement avoids the necessity of having ready cash at the time of the sale and makes it possible for the customer to obtain the goods at once in exchange for his promise of payment at a later date.

Before credit is extended to a customer, the careful credit manager makes whatever investigation is necessary to satisfy him that the customer is worthy of credit—that he is not only able to pay his bills on or before the due date, but also is willing to do so, as shown by his reputation with other creditors and by the investigators' experience with him.

WHOLESALE CREDIT PROCEDURE

The main difference between wholesale credit and retail credit is that wholesale customers usually buy for resale to others, while retail customers buy for their own consumption. Wholesale customers, therefore, will realize an income from the resale of their purchases, and it is from this income that they expect to pay their bills. Retail customers, on the other hand, pay for their purchases out of other income, such as salary, wages, interest, dividends, or rent, and not from the sale of the goods bought.

Successful wholesale credit management depends largely on the proficiency with which the credit man sizes up the business ability and honesty of the credit applicant, who is usually a retail merchant. Business ability is measured by the analysis and comparison of balance sheets and operating statements. Wholesale credit department routine, therefore, is largely concerned with the procuring, interpreting, and preserving of this information, whether it is obtained from the customer himself or from other sources of credit information, such as the mercantile agencies, banks, or other wholesale houses.

CREDIT CONTROL OF SHIPMENTS

The sales department is responsible for getting business, that is, for making sales to customers and prospects. But before an order is shipped, the credit department must approve it. Since there is no money or profit in selling goods to a customer who cannot pay for them, and since the credit department is responsible for determining the customer's ability and willingness to pay his bills, most firms do not allow the shipping department to release goods without the O.K. of the credit department.

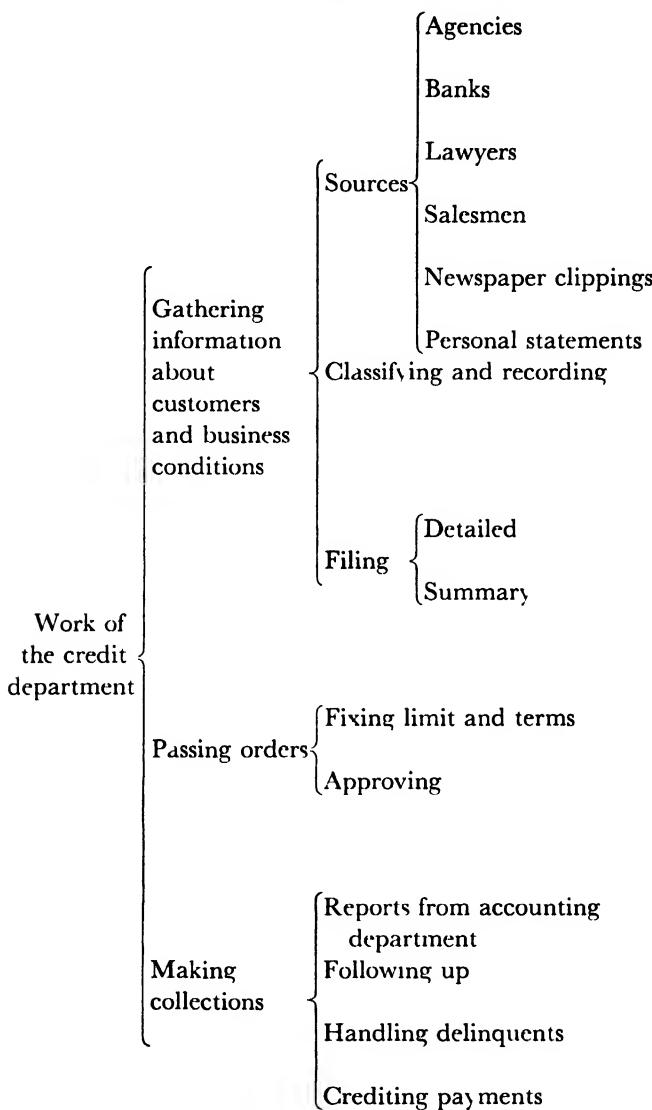
In most lines of business, credit approval must be given before work is started on the order; in some, it may be given at any time before the order reaches the shipping department, thus speeding up the handling by other departments.

A credit investigation is based on information that the credit department obtains through correspondence and personal interviews. It is reduced to writing and becomes a part of the permanent records of the credit department. A large part of the credit department office work is concerned with keeping its records up to date and with arranging the information in such a way that it is immediately accessible for reference.

RESPONSIBILITY FOR COLLECTIONS

The credit department is responsible not only for checking the credit of customers before shipment of goods, but also for collecting the money after the goods have been shipped and billed. The responsibility of collecting payment should influence careful decisions in granting credit. A credit man who is aware of the difficulties of collecting money in some cases is more likely to

The Work of the Credit Department



make a careful check before passing credit. Also, before granting additional credit, it is necessary to ascertain whether the customer has paid his previous bills. The discharge of this responsibility

Credit Department Procedure

1. No goods should be shipped until the credit department has approved the order.
2. Before passing an order for shipment, the credit department wants to know whether the customer can pay for the goods.
3. The credit department also wants to know if the customer will pay for the goods.
4. The credit department is usually responsible for collecting the money.
5. The credit department tries to get all the information it can about a prospective customer.
6. The credit manager may talk with the customer. He may ask him for a financial statement, where else he buys, and the name of his bank.
7. He may write to the bank for information about the customer.
8. Credit-reporting agencies also may be consulted.
9. If the credit manager is satisfied with the information he receives, he may pass the order by writing "O.K." on it, followed by his initials.
10. Credit information is received in confidence and should be kept so without exception.
11. Credit information must be kept up to date. This is called "revising the credit files."

requires much office work in ascertaining which customers are behind in their payments, in making and sending out duplicate bills, and in writing collection letters.

If the customer has to be sued, the credit department handles the details and prepares the necessary evidence. A knowledge of business law is valuable to a credit man; in fact, some credit men are graduates of a law school.

In a large concern, the responsibility for handling credits and collections is in the hands of a *credit manager*, who may have as many assistants as required to handle the necessary details. Sometimes, there are one or more assistant credit managers, a collection manager, credit assistants, and so on. The credit manager is usu-

ally responsible to the treasurer of the company. In a smaller concern, the treasurer himself may handle the credit work.

WHERE TO GET CREDIT INFORMATION

Usually, the work of the credit department starts when an order has been received from a customer, although there is no reason why, whenever desirable, the credit department cannot look up a customer, at least to a limited extent, before the order is placed. Some firms allow salesmen to approach only prospects who have been approved previously by the credit manager.

Sometimes, the credit manager himself talks with the customer to get whatever information the customer is willing to give; sometimes, he has to rely on other sources of information. Since the customer should know more about his business than anyone else, he is, or should be, the best source of information for the credit department. Whenever possible, therefore, the credit manager tries to get as much information as he can from the customer direct. Some firms make it easy for the customer to give this information by providing an application for credit form, similar to the one illustrated here.

Many concerns have the salesman make out a report on the customer at the time that the order is taken, giving information about the financial standing of the customer to help the credit department pass intelligently on the order. The report may contain a financial statement, the names of some concerns where the customer buys, and other references. Sometimes, the salesman adds his opinion of the customer, describes the appearance of the place of business, and so on.

One advantage of having the salesman get this information is that he can talk face to face with customers in his territory, explaining any points that may not be clear. This need not handicap the salesman in making sales, since his sales work is completed before he asks for the credit information. Besides, he has the argument that getting this information immediately will speed up the handling of the customer's order.

If the customer declines to give sufficient information about himself, the credit department has the choice of refusing to fill the order or of trying to get the necessary data from other sources, of which there are several. And, of course, if the customer is good for

the amount of the order, there would be no object in refusing credit if the desired information can be secured from other reliable sources.

Credit-reporting Agencies

1. Credit-reporting agencies make reports on business concerns all over the country.
2. Their reports usually show when a concern started business and what progress it has made.
3. Sometimes their reports indicate whether a firm is making or losing money.
4. Some agencies publish rating books.
5. Rating books usually give a credit rating and a capital rating for each individual or concern that has been investigated.
6. The capital rating shows the estimated net worth of the business.
7. The credit rating shows the reputation of the concern for paying its bills.
8. Some concerns are not rated, because the agencies cannot get enough information about them.
9. One of the largest credit-reporting agencies is Dun & Bradstreet, Inc., with branches in cities throughout the country.
10. There are also credit agencies that specialize in only certain lines of business.
11. A business can get information from a credit agency by subscribing to its service.
12. The subscription usually is paid by the year and entitles the subscriber to the latest rating book and a stated number of reports.
13. Additional reports may be obtained at a nominal cost per report.
14. Some agencies furnish coupon books to their subscribers, and to get a report, the subscriber fills out a coupon and sends it to the agency.
15. If the report received from the agency is not very recent, the subscriber may ask the agency to bring it down to date.

MERCANTILE AGENCIES

Probably the most satisfactory source of credit information, next to the customer himself, is the mercantile agencies, of which Dun & Bradstreet is representative.

The mercantile agencies, through their traveling representatives, gather information about business concerns and place it in their files. When a credit manager whose company is a subscriber to the agency's service asks for information about a customer, the agency prepares a comprehensive report from the material in its files and sends a copy to the credit manager.

This report shows the history of the customer from the time that he started in business and traces the growth of the business, or its decline, year by year. The local reputation of the customer is given, as well as his record with other concerns from whom he buys. Some agency reports are several pages long and give balance sheets and operating statements, as well as changes in ownership and any misfortunes, such as fires, lawsuits, and bankruptcies.

In addition to their report service, the mercantile agencies also publish rating books giving the capital and credit ratings of all persons, firms, and corporations doing business. These books usually are issued from two to four times a year, although special reports may be obtained at any time.

The names in the rating books are arranged alphabetically according to states and cities. To check the financial standing of Fred W. King of Elmwood Place, Ohio, it would be necessary first to look up Ohio and then the town of Elmwood Place. Opposite King's name, the kind of business and the letters and figures that indicate his capital rating and his credit are given. A portion of a sample page of mercantile ratings from the *Reference Book of Dun & Bradstreet, Inc.* and the key to the ratings are shown on accompanying pages.

TRADE REFERENCES

Another valuable source of credit information is those concerns from which customers are or have been buying. These are called *trade references*. By writing to such concerns, the credit manager may find out how the customer is meeting his bills. Whenever the credit man requests information from other credit men, he gives



MEMBER INQUIRY
Credit Interchange Bureaus

229 Fourth Ave. NEW YORK 3 1218 Chestnut St. PHILADELPHIA 7

SEND US REPORT ON

DATE

PRO NO

NAME

CHECK FOR AUTO-MATIC REVISION

4 MONTHS

TRADE STYLE

STREET ADDRESS

TOWN

STATE

UNFILLED
ORDER \$

TYPE BUSINESS

OUR EXPERIENCE (REPORT DOLLARS ONLY)

HOW LONG SOLD	DATE OF LAST SALE	HIGH CREDIT	OWING (INCLUDE NOTES)	PAST DUE	TERMS OF SALE	MANNER OF PAYMENT
						<input type="checkbox"/> DISCOUNTS <input type="checkbox"/> PAYS WHEN DUE DAYS SLOW

IMPORTANT LIST KNOWN SOURCES OF SUPPLY BELOW. THE BUREAU WILL MAKE EVERY EFFORT TO OBTAIN THEIR INFORMATION AND INCLUDE IT IN THE REPORT

NAME

ADDRESS

MEMBER

BANKS WITH

p-i

Courtesy National Association of Credit Men

The use of this form speeds up the exchange of credit information between concerns dealing with the same customer.

any information that he himself may have and always encloses a stamped, addressed return envelope. Incidentally, the association discourages making such requests unless the credit man actually has an order from the customer about whom he is inquiring.

Occasionally the credit manager writes to the customer's bank and to local attorneys, that is, those in the same geographical area or territory as the customer. These two sources of information are not always wholly satisfactory, since no bank will give unsatisfactory information about a good customer, and a lawyer can hardly be expected to divulge unpleasant details about his clients.

HOW CREDIT INFORMATION IS ORGANIZED

As a result of the investigations and correspondence carried on by the credit department, a wealth of information is secured. But

Credit -
MAN'S CONFIDENCE
IN MAN

Dun & Bradstreet, Inc.

IMPORTANT LE CREDIT REPORTS NECESSARILY DIFFER IN FORM AND IN LENGTH DEPENDING UPON THE SIZE AND COMPLICITY OF THE CONCERN REPORTED. THE POLICY OF THE AGENCY IS TO PRESENT THE ESSENTIAL INFORMATION AS CONCISELY AS POSSIBLE.

5912
PENN PINES PHARMACY

CD I JUNE 26 195-

BROOKLYN 19 NY
1246 HAZEL ROAD

Miles Gross, Partner

Hannah (Mrs. Miles) Gross, Partner

RATING: E 2

SYNOPSIS

BACKGROUND Firm formed April, 1946. One partner a pharmacist since 1933.
NET WORTH \$26,865 SALES: \$89,232 (Annual)

PAYMENTS: Discount

CONDITION & TREND Condition sound. Sales increasing and operations profitable.

HISTORY

Style was registered by partners April 30, 1946.

This firm was formed April, 1946. Starting capital consisted of \$10,500 savings, \$3,500 loan from Teachers Credit Union, and \$3,000 loan from partners' families, making total of \$17,000. Loans have since been repaid.

Miles Gross, 41, native born, graduated from Columbia College of Pharmacy 1933. Employed as pharmacist by Liggett Drug Co between 1933 and 1936, and by Ray Drug Co. until this business was started.

Hannah (Mrs. Miles) Gross is 36. She was New York school teacher prior to formation of this firm.

OPERATION-LOCATION

Operates a pharmacy and soda fountain. Drugs and prescriptions account for 50% of sales, with balance equally divided among fountain, sundries, and confectionery. Fixtures area 17' x 27' with 400 square foot soda fountain. Both partners active and three employees. Gross and one employee are registered pharmacists.

Rents first floor of two-story building in good condition. Store measures about 20 x 50 feet. Located in recently developed residential section.

FINANCIAL INFORMATION

A financial statement at April 30, 195-cents omitted

ASSETS		LIABILITIES	
Cash on Hand	\$ 304	Accts. Pay.	\$ 3,724
Cash in Bank	1,872		
Merchandise	14,950		
-----	-----	-----	-----
Total Current	17,126	Total Current	3,724
Fixts. & Equip.	10,913		
Station Wagon	2,464		
Deposits	86	NET WORTH	26,865
-----	-----	-----	-----
Total Assets	30,599	Total	30,599

Net sales from May 1, 195- to April 30, 195- \$89,232; gross profit \$26,181; salary and drawings of partners \$4,752; net profit over and above salary and drawings of partners \$5,457. Monthly rent \$150, lease expires April 30, 195-. Fire insurance on merchandise and fixtures \$25,000.

Signed June 26, 195- PENN PINES PHARMACY By Miles Gross, Partner

Received by mail. No accountant indicated.

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Residential construction has stepped up in this section with result that both sales and profits have mounted steadily. Part of earnings have been re-invested in the business to finance its growth.

INC	ONE	P DUE	TERMS	May 20, 195-	PAYMENTS
2431	2146		10th of	Disc	Sold 3 yrs to date
			No.		
340	230		2-10-N30	Disc	Sold since 1946
250			2-10	Disc	Sold 3 yrs
136	136		2-10-Prox	Disc	Sold yrs to date
75			2-10-EOM	Disc	
15			30	Ppt	Sold 2 yrs
6-26-5	(241 29) FOUR				

PLEASE NOTE WHETHER NAME, BUSINESS AND STREET ADDRESS CORRESPOND WITH YOUR INQUIRY
The foregoing report is furnished, at your request, under Protective Confidence, to DUN & BRADSTREET, Inc., or your credit and
debit (SITRA) employees, for your exclusive use as an aid in determining the advisability of granting credit or insurance, and for no other purpose.

Courtesy Dun & Bradstreet, Inc.

A careful reading of this report—of which this is the first page—shows the detailed information that the mercantile agency makes available to the credit manager.

this information is not worth much unless it is arranged in some definite order and kept so that it may be quickly referred to at any time. Furthermore, it must be checked for accuracy and truthfulness. A comparison of information from one source with information from another source often discloses discrepancies that call for further investigation to get dependable facts.

KEY TO RATINGS

ESTIMATED FINANCIAL STRENGTH
COMPOSITE CREDIT APPRAISAL

			HIGH	GOOD	FAIR	LIMITED
AA	Over	\$1,000,000	A1	1	1½	2
A+	Over	750,000	A1	1	1½	2
A	\$500,000	to 750,000	A1	1	1½	2
B+	300,000	to 500,000	1	1½	2	2½
B	200,000	to 300,000	1	1½	2	2½
C+	125,000	to 200,000	1	1½	2	2½
C	75,000	to 125,000	1½	2	2½	3
D+	50,000	to 75,000	1½	2	2½	3
D	35,000	to 50,000	1½	2	2½	3
E	20,000	to 35,000	2	2½	3	3½
F	10,000	to 20,000	2½	3	3½	4
G	5,000	to 10,000	3	3½	4	4½
H	3,000	to 5,000	3	3½	4	4½
J	2,000	to 3,000	3	3½	4	4½
K	1,000	to 2,000	3	3½	4	4½
L	Up to	1,000	3½	4	4½	5

CLASSIFICATION AS TO BOTH
ESTIMATED FINANCIAL STRENGTH AND CREDIT APPRAISAL
FINANCIAL STRENGTH BRACKET
EXPLANATION

1	\$125,000	to	\$1,000,000	and Over	When only the numeral (1, 2, 3, or 4) appears, it is an indication that the estimated financial strength, while not definitely classified, is presumed to be within the range of the (\$) figures in the corresponding bracket and that a condition is believed to exist which warrants credit in keeping with that assumption
2	20,000	to	125,000		
3	2,000	to	20,000		
4	Up to	2,000			

NOT CLASSIFIED OR ABSENCE OF RATING

The absence of a rating, whether as to estimated financial strength or as to credit appraisal and whether expressed by the hyphen (-), the dash (—), or by the (x) sales listing (see below) or by the omission of any symbol, is not to be construed as unfavorable but signifies circumstances difficult to classify within condensed rating symbols and should suggest to the subscriber the advisability of obtaining additional information.

LISTINGS ONLY AS TO ESTIMATED ANNUAL SALES

When after investigation has been made, the information obtained regarding concerns listed in the Reference Book is not sufficiently conclusive to permit the assignment of any of the symbols in the above Key to Ratings, in preference to listing these names with no indication of their relative importance, the symbols (1x, 2x, 3x, and 4x) may be used to express, in wide ranges, the stated or estimated annual sales as an index to assist in appraising size. These sales symbols have no other significance credit appraisal is neither inferred nor implied. The sales bracket ranges are as follows

ESTIMATED ANNUAL SALES BRACKET

1x	\$500,000 and Over Annual Sales	3x	\$10,000 to \$75,000 Annual Sales
2x	75,000 to \$500,000 "	4x	Up to 10,000 "

INVESTIGATING

Inv. in place of the rating is an abbreviation of "investigating." It signifies nothing more than that a pending investigation was incomplete when this book went to press.

See inside cover of Reference Book for complete key.

Dun & Bradstreet, Inc.

Courtesy Dun & Bradstreet, Inc.

Key to the ratings in the Reference Book of Dun & Bradstreet, Inc.

All credit information should be kept strictly confidential. Under no circumstances should anyone who is not entitled to do so be allowed to see information about the credit standing of another person or company. Ordinarily, this means that no one out-

IOWA

GROVETOWN 2,331	Ash 52	LAMESA 2,999	Harris 86
1st NAT BK OF GROVETOWN	\$220M	1st NAT BK OF LAMESA	\$281M
W I Walters Pr T H Smith Cas		D B Jones Pr Oscar Nelson Cas	
GROVETOWN STATE BK	\$163M	STATE BK & TR CO	\$727M
S D Slater Pr T L George Cas		Frank L Jackson Pr A D Mason Cas (Also Branches)	
23 37 Adams Mfg Co WnSuitsCoats 3	D 2	75 38 Anson Aron S	Atrp 7 H 3½
59 83 Anderson W P R2 FuelOil E 2½		54 12 Askin Alton H	Gr 1 J 3½
54 12 Atwood Dan & Mary (Mrs Dan)	Gr 8 G 3½	72 22 Atwell Roy D	RugCtg E 2½
C 59 HA Benson Gift Shop	2 F 3	50 42 Baker Sam J	GrFdSpcl C 1½
(Also Henderson)		17x21 Benson Henry & Son	Ptg 3 H 3½
43 11 Bradford Coach Co*	C 2½	20 33 Biddle Bros Inc	Vg B+1½
32 71 Broughton & Smith BldBlocks 6	2x	(Br of San Francisco Cal)	
72 62 Browder Daisy (Mrs R)	Mort G 3½	52 12 Bittner Olsen	Frn 8
59 43 Burton Daniel StyBks 4	F 3½	A 52 41 Bradley & Jones	Elcusp 1 G 3½
55 31 Cadman & Co Atsup E 2		53 31 Browder's Stores	Vs ★★
50 20 Carlton & Nelson JanitorSup 6	H 4	(See Centerville)	
56 12 Crockett Clothing Store	MC 2½	52 12 Burton L B & Bro R1	Bldsup C 2½
A 58 28 Delta Co Fert D 2		72 21 Butler Archie Jr	Eic J 3½
A 17 11 Denton Frank H	Pibg 1 H 3½	72 21 Buxton Robert	Ctg E 4X
58 12 Dressen & Son Rst		54 13 Calder's Food Market	5 -
17 31 Edwards Electrical & Supply Co	F 3½	52 23 Caldwell Frank Mort	
52 41 12		70 11 Carlton House	Radios Ht D 2½
17 61 Ferguson Joseph B	Roofg —	59 9A Carter's	Gifts 2 G 3
C 32 71 Fulton Bros BldBlocks 6	F 3	15 11 Carter George D	Bldr E 2½
54 13 Graves Fred GrMt E 2½		58 12 Chatfield Miss Rose	Rst 1 J 3½
76 11 Green Edward W Bsmith H 3½		17 21 Chester & Mears	Ptg 5 H 3½
57 12 Greenbaum Isaac R3	Frn 7 G 4	55 41 Chidie George W R3	Stn 3X
54 62 Grovetown Bakery	F 3	59 8A Clinton William E	Hior H 4
20 33 Grovetown Fruit Co	5	75 38 Clinton James	Atrp 0 K 3½
20 97 Grovetown Hardware Co	E 2	58 12 Clough Arthur & Ann	Rst G 3½
52 11 Grovetown Lumber & Supply Co Inc	H 2	C 59 62 Cody Edward F	HayGrn 6 2
28 51 Grovetown Mfg Co Inc	Paint 1x	73 99 Colfan Interior Decorator	
55 11 Grovetown Motors	E 2½	15 11 Collins Paul J Inc	Bldr 4 F 3
59 83 Grovetown Oil & Coal Co	D 2	01 11 Congreve Herbert R1	Pty 3
27 11 Grovetown Record		59 9A Davis Charles Wm	Gifts G 3
53 12 Gumpston Reese B	Rst Inv G 3½	52 62 Dawes Howard H	Apimpt 2
52 12 Gunz & Adams Inc	Bldsup C 2	75 38 Day Oscar	Atrp 7 H 3½
57 13 Hendricks George FirCvg 8	F 3½	07 23 Decatur Joe NR	PtyHchv 2
76 41 Horton Everett L	Uphl 4 H 4	42 12 Dobson Henry	Trkg 3 F 3½
57 12 Horton Robert	Frn 4 F 3½	A 58 13 Eads D B	CigDyg 6 3
C 57 93 Hull Wilbur E	Gs E 2½	52 11 Eddy Trim Shop	Tav 1 Inv
58 12 Jackson Ada & Charles	Rst G 3	17 31 Elgar Charles C	Lbr D 2
57 12 Jones Charles A	Frn 6 D 2	17 61 Emerson Charles	Eic 9 J 3½
59 8A Judson J Reynolds	Gifts 6 H 3½	17 21 Evans Frank Co	Rootg F 3½
C 53 31 Juston Five Cents to Five Dollar Store	★★	17 21 Ewell Bruce J	PibgSup 2 G 3
(See Milford)		58 12 Frank & Dan's Sandwich Shop	8 X
20 11 Kent Smith Co*	MtPkr D+1½	52 12 Gibbs Elmer	Bldsup 6 3
A 54 13 Landon Dan	GrMt 3½	26 21 Gilbert L S NR	Bsmith J 4
52 11 Lang Henry	G 3½	28 21 Girard C Howard	Sawml F 3½
54 41 Lawrence William & Laura	Cnf 8 H 3½	53 93 Gordon Norman L	Gstrkg 2 E 2½
59 13 Lawton Irving N	Drg —	42 12 J2	
17 11 Lust Reginald	Pibg 5 J 3½	76 31 Heara Roland T	WatchRp O 4
50 21 McCaffrey Archie	Lg 3	59 5A Henry Arthur	Phtsup 8 G 3½
15 11 McTaffe Kenneth	Bldr F 3½	54 12 Hitchens Louis V	Gr 3
57 12 Mason Chauncey E	Frn 2 2x	59 12 Hornung Herman G	Drg 3
59 FA Moore Samuel Sr	Pthsup F 3	C 52 41 Horton J S & Son	Elcusp E 2
24 21 Moses-Chapman Inc	SPMl F 2	72 11 Hysong Martin W Co	Ldry 7
53 92 Nance Edna (Mrs Norman)	Dg 8 G 4	59 JA Iacono David	Optdgs 4 G 3½
55 41 Norton Bros	Stn 1 H 3½	54 21 Iatropoulos Vassilos D	Cnf 3
17 31 Osgood & Hughes	Eic 6	56 21 Idas	Wnrw D 2
53 93 Ousler George	Gs H 2	25 15 Ideal Bedding Co*	Mattresses 2 F 3
58 13 Parker Chas L	Tav 6 —	56 12 Ideal Clothing Co	MBCl 4 E 2½
KENDALL ▲ New Castle 53		52 41 Jones Gilbert	Mkdr 7
Bk town Jacksboro		71 71 Joseph I H	Cigr 8 J 4
54 13 Bender Raymond J	GrMt G 3	59 KA King Donald L	Lug G 3
52 12 Johnson Mrs Beatrice	Bldsup F 3	55 41 King William D	Stn 1 H 4
58 13 McGregor C A	Tav 6	55 31 Kit Auto Stores	2x (Br of Fresno Cal)
01 41 Peters Charles	Darfrm E 2½	42 13 Koster Henry F	Trkg 2
70 11 Pratt Rose (Mrs George)	Ht 2 F 3	79 31 Langrell Frank	Billd 5 G 4
20 33 Rogers Lloyd Canning Co*	Vg 8 3x	07 23 Layton William E	PtyHchv F 3
		55 11 Linnecke Harry F	Ats 3 D 2

The symbols after each name in the Reference Book of Dun & Bradstreet, Inc., give the capital and credit ratings, as shown in the key.

side the credit department, except an officer of the company or a member of the firm, should see the records, not even the salesmen. Every man is sensitive about his credit and financial standing. Many men make every possible effort to prevent others from finding out how much property or money they own and what debts they owe. For anyone possessing such information to pass it on to others without the express or implied permission of the individual involved is to betray a confidence. The libel and slander laws give protection to individuals against defamation of character.

THE CREDIT FILE

As credit information is received by the credit man, he reads and checks it thoroughly to make sure that it is as complete as possible. Then it is filed in a large envelope or folder bearing the customer's name and address. There is one folder for each customer, and in that folder is put all the credit information as it is received, after the credit manager has examined it. In this way, there is gradually accumulated a complete credit history of each customer, to which reference may be made at any time. The folders may be filed in alphabetical order.

Some credit managers also keep a card record on which are noted the different kinds of information. One advantage of a card record is that it can be quickly examined for the most important facts without taking the time to go through the papers in the folder. Sometimes, instead of a card, which has to be filed separately, a check sheet is placed in front of the credit file folder, summarizing the information in it and showing at a glance how recent that information is. This also helps when it is necessary to revise the credit files.

Keeping the Credit File Up to Date. Since business conditions are constantly changing, and since no business stands absolutely still, but is either going forward or backward, the information in a credit file should be brought up to date every six months or so, and certainly not less often than once a year, to make sure that the latest information about the customer is available. The process of bringing this information up to date is called *revising the credit files*. It is accomplished by writing to the customer and to all the other sources from which information has been received,

as well as any new sources that are known, such as other concerns from which the customer has started to buy since the credit files were last revised. An alert salesman can often furnish valuable leads of this sort, by casually noting the brands of merchandise on the shelves of the customer's store.

CHECKING AN ORDER FOR CREDIT

Let us assume that a credit manager has before him for consideration an order from a present customer. This means that one or more orders from this customer have been filled and that there is some information about him in the credit file. If orders from the customer have been filled frequently, the credit manager probably will be familiar enough with the account so that he can say "yes" or "no," practically offhand. Much may depend on the size of the order. A modest order probably would be O.K.'d promptly by the credit manager's writing his initials in the space provided. Some credit managers use the upper right-hand corner of the order blank.

EXAMINING THE CUSTOMER'S LEDGER ACCOUNT

If the quantity ordered seems more than has usually been shipped to this customer, or if the manager's memory is not clear, he can get information about the customer's account from the accounts receivable ledger in the bookkeeping department. Customers develop certain buying habits, one of which concerns the quantity ordered. Ordinarily, a customer will order enough to carry him through a certain period, or a quantity that he can pay for conveniently. Therefore, when the credit man receives a larger order than usual, he is interested in the reason. If the customer's business is better, what makes it better? Unless there is a good reason for the larger quantity, the credit man is justified in wondering whether the customer will be able to sell the increased quantity of goods, perhaps becoming slow in his payments.

The accounts receivable ledger shows each customer's record of shipments, payments, returns, and allowances. Some of the questions answered by the ledger sheet are: "How much does he owe now?" "Does he discount his bills?" "Does he pay when due?" or "Is he slow pay?" An experienced credit man glances at the dates

Red Flags for the Credit Man

An experienced credit man usually develops a sixth sense in watching customers' accounts. Certain happenings put him on guard at once. Some of these are indicated here.

1. Account past due. This is the commonest occurrence.
2. Cash discount taken after time allowed. This is evidence of dishonesty.
3. Check for less than amount due, marked "paid in full." This must be handled carefully.
4. Delay in presentation of claims for shortage, damage, or defective quality.
5. Cancellation of orders or of parts of orders.
6. Unusual volume of credit inquiries from other houses about a customer, especially on first orders.
7. Abnormal increase in number and size of orders.
8. An unusually large order from a slow-pay customer who recently has been paying promptly.
9. Fire under suspicious circumstances. To the credit man, no fire is "successful."

and the amounts on the ledger sheet and draws a quick conclusion as to his *ledger experience* with this customer.

One of the most reliable sources of information about any customer is actual experience with him. If that has been favorable, the credit manager is favorably inclined toward him; if unfavorable, he is inclined to be cautious before extending further credit. Some of the points brought out by experience with a customer include the way he pays his bills, whether he often returns goods without just cause, and whether he makes frequent unjustified claims for adjustments and allowances.

The manner in which a customer pays his bills is important, because it indicates his bill-paying habits. The customer who is habitually slow pay cannot change his bill-paying habits easily. The same is true of the customer who pays his bills promptly or discounts them. In other words, the customer's ledger record may show him to be a good customer or an undesirable one.

If the examination of the ledger account shows that the customer pays his bills promptly or discounts them, and that the quantities shipped are in line with the present order, the credit

manager probably will pass the order without further examination. If, however, the customer's ledger account shows that he is inclined to be slow in paying his bills or that the present order is larger than usual, then the credit manager will consult the customer's credit file folder.

ANALYZING THE BALANCE SHEET

The first thing to look for in the credit folder is the most recent balance sheet, which may have been sent by the customer or may be included in a mercantile agency report. If a recent statement is not found, one should be obtained from the agency or by writing direct to the customer.

The first figure to analyze is inventory, then cash, then accounts receivable, then accounts payable. A comparison of these figures with those on an earlier balance sheet will help to show how a customer conducts his business. If there is also an operating statement (also called an "income sheet" or "profit and loss statement"), the sales figures can be compared to find the rate of inventory turnover. A low turnover is not so favorable as a higher one, but the acceptable turnover rate varies with different lines.

A look at the net worth item on the balance sheet is followed by an examination of the asset items, which represent the net worth; and the liquidity of those items is estimated mentally.

If an inspection of the balance sheet is satisfactory, or reasonably so, the order may be O.K.'d. Or it may be wise to look further in the file for trade references that may show how the customer pays his bills with other firms. A balancing of all the data available will resolve finally into a decision to pass the order on regular terms, or on special terms, or C.O.D., or not at all.

Here is a clear, definite statement of the terms used in analyzing financial statements, according to Dun & Bradstreet, Inc.:

Average collection period. The number of days that the total of trade accounts and notes receivable (including assigned accounts and discounted notes, if any), less reserves for bad debts, represents when compared with the annual net credit sales. Formula—divide the annual net credit sales by 365 days to obtain the average credit sales per day. Then divide the total of accounts and notes receivable by the average credit sales per day to obtain the average collection period.

Current assets. Total of cash, accounts receivable, and notes receivable for the sale of merchandise in regular trade quarters less any reserves for bad debts, inventory less any reserves, listed securities when carried at the lower of cost or market, and United States Government securities.

Current debt. Total of all liabilities due within one year from statement date including current payments on serial notes, mortgages, debentures, or other funded debts. This item also includes current reserves, such as reserves for taxes, and reserves for contingencies set up for specific purposes, but does not include reserves for depreciation.

Fixed assets. The sum of the depreciated book values of real estate, buildings, leasehold improvements, fixtures, furniture, machinery, tools and equipment.

Funded debt. Mortgages, bonds, debentures, gold notes, serial notes, or other obligations with a maturity of more than one year from the statement date.

Inventory. The sum of raw material, material in process, and finished merchandise. It does not include supplies.

Net profits. Profit after full depreciation on buildings, machinery, equipment, furniture, fixtures and other assets of a fixed nature; reserve for taxes; reduction in the value of inventory to cost or market, whichever is lower; charge-offs for bad debts; all miscellaneous reserves and adjustments; but before dividends or withdrawals.

Net sales. The dollar volume of business transacted for 365 days net after deductions for returns, allowances, and discounts from gross sales.

Net sales to inventory. The quotient obtained by dividing the annual net sales by the statement inventory. This quotient does not represent the actual physical turnover, which would be determined by reducing the annual net sales to the cost of goods sold, and then dividing the resulting figure by the statement inventory.

Net working capital. The difference between the current assets and the current debt.

Tangible net worth. The sum of all outstanding preferred stocks (if any) and outstanding common stocks, surplus, and undivided profits, less any intangible items in the assets, such as good will, trade-marks, patents, copyrights, leaseholds, mailing lists, treasury stock, organization expenses, and underwriting discounts and expenses.

Turnover of tangible net worth. The quotient obtained by dividing the annual net sales by the tangible net worth.

Turnover of net working capital. The quotient obtained by dividing the annual net sales by the net working capital.

TWO VITAL QUESTIONS

The credit manager is trying to find the answer to two vital questions:

Can the customer pay this bill when it comes due?

Will he pay it when it comes due?

The first vital question concerns the customer's ability to pay. Is he likely to have the money to pay the bill at maturity, and what is the source of that money? Has he assets that are readily realizable? What is his net worth? Ordinarily, a firm's capital rating is determined by its net worth. Its balance sheet shows this.

The second vital question concerns the customer's habits of and reputation for paying his bills. The man who is chronically slow pay does not change his habits overnight. Many a slow-pay customer, in opening a new account, believes that if he discounts the first few bills with the new supplier, he will have established himself favorably, not realizing that the credit manager of the new supplier has access to more or less complete information about his credit standing and is fully aware of his slow-paying habits with other suppliers. Indeed, many a credit man has soliloquized on about how long it would be before the new customer would slow down in his payments.

INVESTIGATING A NEW ACCOUNT

What is the credit manager's procedure with a new customer, whose first order lies on the credit man's desk? Three factors are concerned here: first is the size of the order. Some will pass a small first order more readily without a complete credit checkup than they will a larger one.

The second factor is the credit reference that accompanies the order. Experienced businessmen know that before they can buy on *open account* (so called because the accounts receivable ledger account is opened with the first charge and remains open until balanced), the seller must have some intelligent basis for granting the credit. The best basis is the experience of other concerns with them. A first order from a new customer therefore should be accompanied by the names and addresses of other concerns that

The Three C's of Credit

CHARACTER

Reliability. Business and social honor. Squaring himself with the world and keeping himself so.

The man. Personal deportment. Leading a clean, temperate life. Character of associates.

Moral risk. Reputation. Built up by long years of honest dealing.

CAPACITY

Capability. Age, health, education. Is he mentally and physically capable of conducting his business successfully?

Methods. Business experience? Is he experienced, or is he a novice? Has he demonstrated his ability to manage a business? Does he manage this one well?

Business risk. Personal effort. Has he built it up himself, or did he inherit it?

CAPITAL

Responsibility. That which can be taken under an execution. Does it consist of property and other assets of a tangible character convertible into money without great cost and undue delay?

Means. Resources personally acquired or inherited? Is the capital borrowed or inherited, and if so, are there any "strings" to it?

Property risk. Net wealth. Is the capital ample? Will the lack of capital make overborrowing necessary?

Shaw Banking Series

have sold him on open account. Usually, the name of the new customer's bank also is desired. The submission of the customer's latest balance sheet (where the order is a substantial one) always creates a favorable impression—provided, of course, that the statement is a good one. Instead of enclosing a financial statement, a customer may write, "You may obtain a copy of my balance sheet from Dun & Bradstreet," or "I am rated in Dun & Bradstreet" or in some other mercantile agency. If a new customer does not give

any references or other information about himself, the credit manager will hold up the order while writing to the customer for references, unless the agency rating is high enough to warrant shipment.

The third factor is the customer's rating in the reference book of a mercantile agency. If the rating and the financial statement are satisfactory, and the firms named as references are favorably known, the credit manager will probably O.K. the first order, if it is not too large. Most credit men develop a *credit sense*, an intuitive faculty that enables them to spot a discrepancy even when all the surface indications are apparently favorable. Such credit men can spot at once the vital and decisive factors in the information they possess, sifting the significant facts from the chaff, and then correlating them quickly into accurate judgment.

If the credit manager has any doubt about the wisdom of accepting an order on the basis of the information before him, he may write, wire, or telephone to the references given, depending on how urgently the goods are needed. Also, the credit manager is well aware that "figures never lie, but they can be grouped to serve the same purpose." One doubtful item in credit information causes the credit man to wonder if there are others, and he finds them often enough to justify his questioning attitude. Any error in a financial statement may indicate carelessness, negligence, indifference, or even deliberate misrepresentation. If there is one error, there are likely to be others. The credit man either starts looking for them or discredits the entire statement as unworthy of further consideration.

RETAIL CREDIT PROCEDURE

Up to this point, we have been discussing wholesale credit, where the customer's ability to pay depends in part on the income that he realizes from the resale of his purchases. *Retail credit* is concerned with customers who buy for their own consumption and must pay for their purchases out of salary or wages and any other additional personal income. For these reasons, the retail credit manager must take every wise precaution to protect his company from being imposed on by unscrupulous customers.

The credit manager usually prefers to interview all applicants for credit, so that he can size up the prospective customer per-

sonally and make his own estimate of the customer's character. Never forget that character plays an important part in credit. At the interview, the applicant is asked for such information as full name and address, how long he has lived at his present address, his occupation, business, employer, or position, and details as to bank deposits and real estate owned. Many stores also require



Ewing Galloway

The credit manager always prefers to talk with a customer before opening a charge account

the credit applicant to sign the blank on which the above information has been noted, together with the statements that "all purchases will be considered necessities." Credit forms are sent to banks and other references, and a decision is based on the information received.

The retail credit manager gives particular consideration to such points as how long the applicant has held his present position, how long he has lived at the present address, and if securities and unencumbered real estate are owned. If there is a local retail credit bureau, the customer's paying habits and record with other stores is obtained and examined.

RETAIL CREDIT COMPANY CHARACTER CREDIT REPORT (INDIVIDUAL)		SPECIMEN	CONFIDENTIAL				
File No. 			A----- OFFICE <small>(If not only on heading) (State whether former addr., etc.)</small>				
Acct No 0000 5-6-53 4 H---, J--- E. C---, O---, 2110 Avalon N.E. T--- R--- B--- Co-shipping Dept.		<small>REPORT FROM</small> <small>Transaction 125</small> <small>Amount \$ 125</small> <small>No Notes 0 125</small>					
IDENTITY 1 Time known (years) by you and each informant? 2 Are name and address correct as given above? 3 About what is his age? (If around 21 verify if possible) 4 Is he married? Number of dependents including wife? 5 What is his racial descent?		1 Yes -- Informant? C, 2, 125YR-7 NO 2 Yes 3 35 4 Married Number of Dependents 1 5 Anglo-Saxon 6 T--- R--- B--- CO. 7 Bearing Mfg. 8 Storage bin attendant 9 Rehired 7-16-47 10 Yes 11 Yes 12 \$2,500 13 Cash, car, furniture 14 Rents 15 \$ 3,000 Exact <input type="checkbox"/> Estimated <input checked="" type="checkbox"/> 16 None Source 17 No Income \$ 18 Yes					
EMPLOYMENT 6 By whom is he employed? (Give name of firm) 7 What is nature of business? (State kind of trade or industry) 8 What position does he hold? 9 How long in present employment? (If short time explain) 10 Does he work full time steadily? (If not, explain below) 11 Are prospects for continued permanent employment good?							
FINANCES 12 What would you estimate his NET WORTH? 13 Of what does worth consist principally? (Real estate cash stocks bonds etc.) 14 Does he own or is he buying his home? 15 What is his ANNUAL EARNED INCOME from his work or business? 16 About what ADDED INCOME from investments rentals pensions disability etc.?							
CHARACTER 17 If married (Is wife employed)? (Wife's income) 18 Is his reputation as to honesty and fair dealing good? 19 Do you learn of any illegal activities or domestic troubles? (If no explain below) 20 His health (physical or mental) that might affect ability to pay? (If no explain) 21 Judgment or any failures bankruptcies, arrests, foreclosures, suits, judgments or garnishments against him? (If in state which Give details)							
22 Do you recommend doing business with applicant on a credit basis?		22 Yes					
23 CREDIT RECORD (Is there Credit Bureau Hardware General Mds Department Grocery Mens Store Bldg Supply Banks etc.) Show how long credit rating							
24 BUSINESS Comment on past and present business connections success and prospects for future Amplify any unusual or unfavorable information which might affect his ability to pay promptly If wife employed cover name of employer position length of employment							
25 PROPERTY All property owned (both real estate and personal) and estimated value							
26 IF REPORT COVERS A WOMAN give name and occupation of husband (if married) or father (if single) and estimate of his net worth and annual income							
(21) End of Business Finance Co. 9-22-48 Appliance Co. 9-49		How Long Selling 9-22-48 No	If R Selling None \$130.00	Highest Credit Extended \$135.24 None None No	How Much Group None None No	If It Paid Due No Paid as agreed	<small>Paying record on Specify record on 90 days late If there is 90 days late If Contract debt, as stated</small>
The applicant maintains a satisfactory account at the First National Bank and they regard him favorably.							
BUSINESS J---- E. H--- is employed in the shipping department of the T---- R---- B---- Co. and is a storage bin attendant. He has steady employment here and prospects are favorable. Employer is reputable and has operated for 25 years. This concern cannot give exact income as applicant works on an hourly rate but it is estimated that he will earn approximately \$3,000 a year. He is married and is renting in a middle-class section. Personal reputation is good.							
PROPERTY Worth consists of his car, home furniture, and savings. He does not own any real estate at this time. No suits or judgments against him.							
RDK RETAIL CREDIT COMPANY		Signature of person making report			CHARACTER CREDIT REPORT--INDIVIDUAL		

Courtesy Retail Credit Company

A character report like the one shown above gives the credit manager valuable information about individuals. Insurance companies also find such reports helpful in considering applications for insurance.

In department stores, when an account is opened, the customer may be given an identifying card, or a token coin, or some device indicating that he is entitled to charge purchases at the store. Sometimes, a limit is placed on the amount that may be charged. In such cases, the salesclerk communicates with the credit depart-

ment, where the information about the customer is instantly available, making it possible to approve or decline a charge without delay. Some rather ingenious devices have been developed for speeding up retail *credit authorization*, as this procedure is termed.

Standard Practice Instructions for Granting Retail Credit on a First Purchase

1. Do not make snap judgments. Be careful, but not too cautious or too lenient. Strive for a happy medium.
2. Be sure of identity of customer.
3. If customer has charge cards from other stores and the information on the application looks O.K., pass no more than \$10 to \$15 in merchandise as a first purchase.
4. Do not pass a first purchase to a minor without a written guarantee.
5. Do not pass a first purchase to the wife of a man in military service beneath the rank of a commissioned officer without a waiver and guarantee.
6. Do not pass a first purchase to anyone employed less than two years at present position if she has no other charge accounts.
7. Do not pass a first purchase to a customer who changes address or job frequently.
8. Remember—the first purchase is just a “courtesy charge.” This does not assure the applicant that the account will be opened.

(Courtesy Touraine Stores, Boston)

WHOLESALE COLLECTIONS

Before granting more credit to a customer, it is necessary to know if he has paid his previous bills. For this reason, collection records are usually under the same control as credit records, that is, under the credit manager.

Theoretically and legally, anyone who owes money is expected to pay it when payment is due, without demand for payment. Practically, some sort of demand, varying from a simple reminder

at one extreme to a lawsuit at the other, is frequently necessary. It is an axiom that creditors have better memories than debtors.

One outstandingly successful credit manager has said that the time to start the collection procedure is when the credit is passed. This means that, as the credit manager is responsible not only for approving the credit, but also for collecting the account receivable resulting from the credit, he should have a clear understanding with the customer as to when and how payment is to be made. Such an understanding, firmly backed up, will go far toward assuring the payment of accounts receivable on or before their due dates in most instances. Thus the collection effort may be confined to a smaller number of customers, on whom attention may be concentrated and pressure brought to bear if needed.

The first step in the collection of wholesale accounts receivable is to send the invoice as soon as possible after the shipment of the order. Some concerns even send the invoice along with the goods. In the case of long-distance shipments, the invoice, if mailed, may reach the customer before the goods do.

Among other things, the invoice shows the amount charged and the terms, which vary with different lines. In many lines, the terms are 2/10, net 30, which simply means that if the bill is paid within 10 days from the date of the invoice, the customer may deduct 2 per cent as a cash discount. Otherwise, the bill is to be paid within 30 days from date, without deduction.

At the end of each month, a transcript of the customer's ledger account is mailed to him. This is a monthly statement that shows the unpaid invoices or *open items*, as they are often called, even though some may not yet be due. The date opposite each item helps to show when payment is due. The customer is thereby informed of the status of his account; he knows when bills are due for payment. If the credit has been carefully passed, payment may be expected in due course, provided that no untoward events have occurred to delay it.

If payment of any invoice is not made on the due date, or within a day or two thereafter, the credit manager or his assistant will give his attention to the account. The important point in collections is to make sure that if the account is not paid on the due date, definite steps will be taken to collect the money.

Collection Procedure

1. Not all customers will pay their bills without being asked for payment; that is why collection departments are necessary.
2. The job of the collection department is to get the money due the company without offending the customer, if possible.
3. Sometimes, a customer will not pay his bill until he is sued or thinks he is going to be sued.
4. Collection procedure should start as soon as an account becomes due.
5. The first step is usually to send a statement showing the amount due.
6. The next step is to ask the customer if he received the statement.
7. Some concerns ask the customer to let them know if the statement was incorrect.
8. If no answer is received, ask the customer if there is any reason why the account should not be paid.
9. Next, inform the customer that if payment is not received within a certain time, the bill will be given to an attorney for collection.
10. As a final step, give the account to a reputable attorney or a good collection agency.

SEND STATEMENTS PROMPTLY

If the amount due is substantial, the information in the customer's credit file is reviewed to determine whether there are any weak spots that need watching. Experienced and careful credit men review each customer's ledger account from time to time so as to be thoroughly familiar with the paying habits of all customers. Some credit managers have the bookkeeper prepare each month a list of customers whose accounts are past due and unpaid. Then the credit manager works from that list.

The right kind of statements mailed when due will help to keep a credit business on a healthy basis. If statements are sent out at the end of the month, every effort should be made to see that they are mailed so as to reach the customer promptly on the first of the

month. Laxness in sending invoices and statements and in following up collections only encourages the slow-paying customer. When a customer knows that nothing will happen if he delays payment, he is likely to be slow in paying those creditors who do not press him. He realizes, on the other hand, that by not paying promptly those creditors who press him, he is likely to lose his credit standing with them. It is obvious, therefore, which creditors will be paid first.

WATCHING THE PROGRESS OF COLLECTIONS

<i>Month of</i>	<i>January</i>		<i>February</i>		<i>March</i>		<i>April</i>		<i>May</i>		<i>June</i>	
<i>Shipments for month</i>	\$3,650		\$2,890		\$3,360		\$3,920		\$3,230			
<i>On first of month below</i>	Bal- ance	Per cent	Bal- ance	Per cent	Bal- ance	Per cent	Bal- ance	Per cent	Bal- ance	Per cent	Bal- ance	Per cent
February	3,450	94.6										
March	2,220	60	2,640	91.5								
April	700	19	1,760	61	3,000	90.6						
May	400	11	650	22.5	2,300	69.5	3,750	95.7				
June			290	10	800	24.2	2,670	68.1	2,980	92.4		
July					380	11.5	710	18.1	2,090	65		
August							275	7	525	16.2		
September									175	5.5		
October												
November												
December												
January												

At the end of each month, the figures showing the shipments for the month are entered. Then, in the appropriate columns are entered the balances owing at the first of each month. Dividing the balance owing by the total shipments gives the per cent outstanding on the first of the month. There should be some consistent correlation of the figures from month to month, or for the same months from year to year, depending, of course, on circumstances.

FOLLOWING UP COLLECTIONS

It is necessary to adopt some systematic method of keeping after the customer until the bill is paid. For this purpose, many offices use a special collection record containing all the available information on the case. The record may be a card or a loose-leaf sheet.

By the use of signals, attention may be directed to the accounts for whatever action is required.

If the customer does not pay within a reasonable time after receiving the statement, the credit manager or an assistant sends another copy of the statement or writes to the customer, reminding him that payment is due. If correspondence does not bring payment, the account may be given to a collection agency or to a lawyer with instructions to sue the customer if the bill is not paid within a reasonable time.

The use of drafts in collecting past-due accounts is not so frequent as formerly, since the refusal of a debtor to pay a draft drawn on him by a creditor is no longer considered a serious reflection on his character and credit standing. Drafts are still widely used in business, but not for collecting past-due accounts, except by mutual agreement between the parties concerned.

RETAIL COLLECTIONS

The wholesale credit manager follows up his accounts more closely than the retail credit manager, because they usually involve larger amounts, and the chances of an appreciable loss from one account are greater. The bulk of retail accounts are not so large, and payments are not dependent on the resale of the merchandise. Payment, even though long delayed, is more sure, because of the care with which the investigation is made at the time that the credit is applied for.

In any case, retail stores do not press their customers closely, unless the information at hand shows some reason, such as an intention on the part of the customer to move away or out of the state.

Since most of a retail store's customers live within easy commuting distance, if not in the same community, the store credit manager need not depend on letters for collecting past-due accounts. He can request a customer whose unpaid bills are becoming old to make a personal visit to his office to discuss arrangements for prompter payment.

LOCAL CREDIT BUREAUS

In many districts, a central retail credit bureau keeps its members informed of changes in the affairs of retail customers in

whom they may be particularly interested. In such a bureau, there is centralized the experience of all member stores that are selling or may have sold to the same customers. Any doubtful condition that may call for collection pressure is thereby promptly indicated.

INSTALLMENT CREDITS AND COLLECTIONS

The importance of installment sales is shown by the fact that on January 1, 1952, Americans owed 13.5 billion dollars for installment purchases out of a total consumer credit of 20.6 billions. The three main differences between installment credit and retail credit are these. (1) Installment sales agreements are in writing and publicly recorded. (2) The buyer agrees to pay a stated amount every week or every month. (3) Since the seller owns the goods until the buyer has paid for them, the seller can take back (repossess) the goods and resell them to someone else, if the buyer defaults in his payments. This drastic penalty for nonpayment exerts a powerful leverage on the buyer to make his payments as agreed.

QUESTIONS FOR REVIEW AND DISCUSSION

1. Why should the greater part of business be transacted on a credit basis?
2. Explain credit basis.
3. What is meant by worthy of credit?
4. What is the main difference between wholesale credit and retail credit? Why is this difference important?
5. Would you say that a customer who buys in large quantities is a wholesale customer? Explain.
6. On what does successful wholesale credit management depend?
7. How is the business ability of an applicant for wholesale credit determined?
8. When should the credit of a customer be approved? Why?
9. How does the credit department make an investigation of a customer?
10. Why should the credit department be responsible also for collecting the money from the customer? Is there any advantage in this arrangement? Explain.
11. How is the credit department organized for work?

12. Why should the customer be the best source of information for the credit man?
13. What advantage is there in having the salesman give the credit department a report on the customer? Might this requirement handicap the salesman in making sales? Explain.
14. Describe the work of the mercantile agencies.
15. Describe the mercantile agency rating book and what it shows.
16. What are trade references, and why are they helpful?
17. Why are local banks and attorneys not wholly satisfactory as sources of credit information? What is the meaning of local?
18. Describe the credit file and what is meant by revising the credit file.
19. Why should all credit information be kept strictly confidential?
20. Describe how a credit manager handles an order from a present customer of the firm.
21. What importance is attached to the quantity ordered, in passing credit?
22. Why is the manner in which a customer pays his bills important?
23. What items on a customer's balance sheet are significant?
24. What two questions are vital to a credit man?
25. What relation, if any, is there between the customer's ability to pay and the fact that he will or will not pay his bill?
26. How is a customer's ability to pay determined?
27. What is the meaning of buying on open account?
28. What is meant by credit sense?
29. Why does a retail credit manager prefer to interview personally all applicants for credit.
30. How may the retail credit manager check the applicant's statements?
31. Comment on this statement: "Theoretically and legally, anyone who owes money is expected to pay it when payment is due, without demand for payment."
32. Explain this statement: "The time to start the collection procedure is when the credit is passed."
33. Trace the steps taken in collecting wholesale accounts receivable.
34. What does the wholesale credit manager do if payment is not forthcoming?
35. Why are monthly statements important? Or are they? Comment.
36. "Retail stores do not press their customers for payment so closely as wholesale credit men." Explain and comment.
37. What is the purpose of a central retail credit bureau?
38. Explain three distinctive features of installment credit.

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees.

1. Ask the credit manager of a local retail store that has charge accounts how he determines whether to open a charge account for a customer.
2. Ask some local credit man whether there is a central credit bureau in your community. If so, find out how it works.
3. If there is a collection agency in your community, ask the manager to explain how it works.
4. If there is no local collection agency, ask an attorney to explain his procedure in collecting a bill.
5. If there is a branch office of a mercantile agency in your community, ask the manager to explain its work.
6. Explain how you would check the credit rating of a customer in a credit reference book and its use of symbols.
7. Design a card system for watching collections, and explain how it is used.
8. Outline a form of daily report for the accounting department to make, showing the state of collections.
9. Prepare a series of collection letters. Tell when you would send the first letter and the time intervals before sending the others. Give your reasons.
10. Design a system for gathering credit information, and explain the meaning of each part.

PROBLEMS

1. In a large organization whose salesmen work from branch offices, while the credit department is located at the home office, what would be the most effective way to coordinate the sales and credit departments of the company? Give your reasons.
2. Mrs. Smith is a charge customer. Her purchases are equal to the average, and the bills have been paid promptly. But Mr. Smith has been laid off temporarily and is unable to pay the current bill. The credit manager believes that the bill will be paid once Mr. Smith returns to work. For how much, and for how long should the store carry the account without payment? Give your reasons.
3. Should a grocery store extend credit to a good cash customer who is in financial difficulties and will be unable to pay his bill for two or three months? Give your reasons.

4. A small grocery store has been granting credit to certain customers and now finds that many of them are so far behind in their payments that to grant further credit would be folly. Yet these customers will be lost if credit is refused. What should the manager do? Give your reasons.
5. The chain store policy is "no credit," but the manager is told to get more business. If he can increase his business about 10 per cent with good credit risks, should the chain give the manager this authority, or should the policy be strictly maintained? Give your reasons.
6. One company finds that letters to overdue accounts are not being sent out on time. Since the longer an account is unpaid, the harder it is to collect, the credit manager wants to establish a method to avoid the present delay. What do you suggest? Give your reasons.
7. How would you handle the problem of the customer who pays his bill after the due date, yet still takes the cash discount?

LEGAL PROBLEMS INVOLVING CREDIT

1. Mr. Fall purchased a bill of goods amounting to \$100 and paid for them with a check, which was accepted. The bill was marked paid. Is Mr. Fall now discharged from all liability? Explain.
2. A merchant sold a hat to Mr. Fast for \$5 cash. The hat was delivered at Mr. Fast's place of business, but he never received it. Who is liable for the loss? Why?
3. Mr. Hunt agreed to buy an automobile from Mr. Howe for \$950, provided the car was painted before delivery. Before the painting was finished, the car was destroyed by fire. Who was the loser? Why?
4. Mrs. Cone purchased a fur coat valued at \$500, with the agreement that she could return it any time within a week if not satisfactory. Before the end of the week the fur coat was stolen. Who is the loser? Why?
5. Mr. True, a country merchant, ordered by mail a bill of goods amounting to \$200. The goods were promptly shipped as ordered, but were destroyed in transit. Must True pay for the goods that he never received? Explain.
6. Mr. Small ordered and paid for a suit of clothes from his tailor. The clothes were finished and ready for delivery when the shop and contents were burned. On whom does the loss fall? Why?
7. Mr. White delivers cloth to his tailor to be made into an overcoat, for which he is to pay the tailor \$20. Mr. White is notified

that the coat is finished, but before he gets it the shop burns. Must Mr. White pay the \$20, and must the tailor pay for the cloth? Explain.

8. A customer bought a table on credit. At the expiration of the time for which credit had been extended, he had not made payment. Can the merchant recover the table? Why or why not?
9. Mr. Ball agreed to buy a watch if it should prove satisfactory on ten days' trial. The dealer agreed and let him have the watch. Before the ten days had expired, Mr. Ball sold the watch to another man. Can the jeweler recover the watch? If not, why not? To whom must he look for his pay? Why?

CHAPTER XV

Organization for Purchasing

Just as every business has a sales function, so every business has a purchasing function, though perhaps it is not always developed to the same extent. No business can get along without buying some things, and many businesses buy huge quantities of goods and materials.

Let us look first at the four general types of items that are purchased and consider why there is a different aspect to each type. These four types are merchandise, materials, equipment, and supplies; and the purchase of each is more or less of a specialty.

BUYING MERCHANDISE AND MATERIALS

Merchandise, for example, is bought primarily for resale. The main features that the buyer of merchandise must look for are salability, style (in the case of style merchandise), and price. With materials, on the other hand, the prime essential is compliance with definite standard specifications, carefully drawn up by engineers after painstaking investigation to discover the material best suited for the purpose intended. Since materials usually are bought for manufacturing processes, it is imperative that they be of uniform quality if the manufacturing process is to turn out a product of uniform quality.

Not that substitutes may not be used, but before being used, their composition and suitability must be examined and tested. During World War II, many concerns could not obtain the customary metals and other materials that went into their products; they had to find substitutes or go out of business. More than one concern found that a substitute, reluctantly used,

The Work of the Purchasing Department

Work of the purchasing department	Locating and contacting sources of supply (including new commodities and substitutes)	Talk with salesmen Study sales literature Watch trade papers Visit suppliers' factories Investigate possible new sources Attend fairs conventions, etc
	Buying everything needed By specification At reasonable price	Receive purchase requisitions Negotiate with suppliers Analyze quotations for Quality Delivery Price Place the order Written purchase order Telephone with written confirmation
	Getting delivery of the goods	Follow up suppliers for delivery when wanted Tickler file Telephone Follow up letters Telegraph
	Inspecting the goods to make sure that	Articles delivered are those purchased Specifications are complied with Quality purchased is delivered Quantities delivered are as ordered
	Storekeeping and materials control	Storing Shelves with index Cabinets to aid quick finding Bins etc Disbursing On requisition only Signed by proper authority Showing whom to charge Maintaining stock Perpetual inventory (Inventories) Physical inventories Reserve plan
	Checking invoices accurately	Invoice with purchase order Goods received with invoice and order Quantities prices extensions, discounts
	Passing invoices promptly to accounting department so that no discounts will be lost	
	Other clerical work	Writing purchase orders Purchase records Prices Quotations Vendors Sources Correspondence Files Correspondence Unfilled orders Specifications and standards Catalogues and price lists

proved to be better than the material previously used for years.

The ability to buy merchandise that will sell is distinctly different from the ability to buy materials for production. The technique of buying is different, the objectives are different, and so are the qualifications of the person responsible for the buying. Even the titles are different. The buyer of merchandise for resale is called a merchandise man, or a merchandise manager, or simply a buyer. The buyer of materials for production is usually called a purchasing agent; if he specializes in one or a very few kinds of materials, he also may be called simply a buyer.

The *merchandise buyer* has in the back of his mind the customers to whom he hopes to sell what he buys. His whole success depends on his ability to determine what will sell; some guess-work enters in. There is an element of gambling that attracts many individuals; but the wrong guess may cost the buyer his job.

The *materials buyer*, on the other hand, has to locate dependable sources of specified materials at a reasonable price and be assured of steady delivery. If the purchasing agent cannot get delivery of needed materials, work slows down at once in the absence of stock piles. If the purchasing agent pays too high a price, the firm may have to raise its price on the finished product.

The merchandise buyer, when examining merchandise submitted to him, is always thinking, "Can I sell this?" The materials buyer is thinking "Where can I get materials that measure up to the stated specifications?" The objectives are different, the outlook is different, the techniques are different, and so is the organization.

BUYING EQUIPMENT

The third type of item purchased is equipment, which is expected to save time and labor while producing accurate work. The huge press in an automobile body plant turns out a body top in practically one operation from a sheet of metal, doing in seconds what formerly took hours. But unless the body plant can use the tops as fast as the press can stamp them, the machine may not pay its way. Before equipment of any kind is purchased, the requirements of the work to be done must be determined, and the equipment examined as to its suitability for the purpose.

Consider the simple office operation of adding columns of figures. Machines are available that can add columns of figures with remarkable speed. But if there is only one column of figures to add each day, the purchase of an expensive adding machine might well be questioned. On the other hand, accuracy is equally important with speed.

In the case of a typewriter, two other factors enter into the consideration of whether a one-man office, for instance, should purchase a typewriter. The legibility of typed letters is a decidedly important factor; so is appearance. Furthermore, copies are readily made by using carbon paper.

Another point in this connection is that equipment is expected to last some time—frequently several years. Consequently, in most firms, its purchase is attended with thoughtful care. Many firms require a vote of the executive committee before equipment costing over a stated amount may be purchased. Sometimes, this amount is \$500; in one firm it is \$50.

BUYING SUPPLIES

Supplies include soap, lubricating oils, greases, stationery, ink, pencils, toilet paper, towels, and similar items used within the company, which do not enter into the manufacture of the product and are not resold to others. The purchase of supplies should be subject to standard specifications, the same as the purchase of materials. Since supplies, however, are used up within the concern and have no effect on customers, some companies are not so careful in their purchase. Unless attention is given to the problem, supplies are likely to be purchased on a price basis rather than on quality. This penny-wise pound-foolish policy is expensive, but is easily overlooked, unless someone who knows how expensive it is insists on buying supplies on a basis of quality as well as price.

The buying of merchandise for resale generally is confined to trading businesses, while the purchasing of supplies and equipment is common to all businesses. Furthermore, since the buying of materials has much in common with the buying of supplies and equipment, we shall concern ourselves with the organization for the purchasing of these three.

Standard Purchase Specifications

The use of standard specifications in getting quotations and placing purchase orders assures more uniformity than can be obtained by simply saying "1,000 like attached copy." Observe how clearly the following purchase specification covers every point:

Standard Specifications for Form 955

Print, perforate, punch, and bind 1,000 "Sales Contracts," Form 955, copy attached. Size 8½ x 14. Print in purple copying ink on Yellow National Bank Bond, basis 17 x 28-25½. Perforate $\frac{1}{2}$ inch from the top of the form with perforating rule so that contract and receipt will be 13½ inches long after being torn at perforation. Perforate 2½ inches from the bottom of the form so that the contract will measure about 11 inches after being torn at perforation. Punch two $\frac{3}{8}$ -inch holes at top of form, 5 inches, center to center. Bind at top without covers or backing, using side wire stitch, 25 sheets to a pad. Printer will furnish stock.

WHO SHOULD DO THE PURCHASING?

The sales manager looks after the sales; the factory manager looks after the manufacturing; the credit manager passes on the credits. Who shall look after the purchasing?

Formerly, the purchasing in many concerns was handled by department heads or by the officers. It is still handled that way in some companies. But progressive firms are finding out that it usually pays to concentrate all the purchasing in one central department, which is responsible not only for procuring all materials, equipment, supplies, and services required for carrying on the company's business, but for obtaining material of a standard quality at reasonable prices. The larger purchases that result make possible lower prices and more uniform quality.

Furthermore, purchases and deliveries can be followed more closely by a *purchasing agent* who is giving his entire time to the purchasing function and is familiar with dependable sources of supply. He can keep in touch with markets, price changes, and

An Argument for Centralized Purchasing

The general purchasing department of a national concern made an investigation to find out how much its branches were paying for motor oil for their automobiles and trucks. The figures reported by the branches show the brands of oil bought, the quantities purchased, and the price per gallon.

<i>Branch</i>	<i>Brand bought</i>	<i>Quantities</i>	<i>Gallon price</i>
Atlanta	C	1 bbl.	\$.80
Birmingham	K	1 qt.	1.00
Boston	E	Contract	.42
Chicago	A	Contract	.47
Cincinnati	I	1 bbl.	.55
Dallas	G	5 gal.	.90
Detroit	D	1 qt.	1.25
Indianapolis	J	1 bbl.	1.20
Kansas City	H	1 bbl.	1.03
Memphis	D	$\frac{1}{2}$ bbl.	.47
Milwaukee	D	$\frac{1}{2}$ bbl.	.45
Minneapolis	D	$\frac{1}{2}$ bbl.	.52
New York	C	3 bbl.	.54
Philadelphia	D	$\frac{1}{2}$ bbl.	.90
Pittsburgh	F	1 bbl.	.54
Rochester	C	1 qt.	1.20
St. Louis	B	Contract	.50

As a result of this investigation, which showed 17 branches buying 11 different brands, varying in quantity from 1 quart to 3 barrels, at prices ranging from 42 cents to \$1.25 a gallon, a contract was made with one oil company to supply its brand direct to each branch as needed, in barrel lots, at a uniform price of 47 cents a gallon.

trends, and watch the development of new products and substitutes. He has time to talk with salesmen, to visit and inspect the factories of those concerns who supply his wants, and to attend fairs and trade conventions where the progress of invention and manufacture is displayed. In other words the purchasing agent may be the eyes and ears of the concern in many ways.

It is also important for the purchasing agent (1) to know what makes a contract valid, (2) to be able to gauge the value of warra-

ties, (3) to be familiar with the liabilities of common carriers for loss or damage, and (4) to know under what circumstances orders may be recalled or canceled.

THE PURCHASING DEPARTMENT ROUTINES

Some of the assistants in a large purchasing department may be specialists in buying certain articles. For instance, a man who is a good buyer of printing and stationery would specialize on those items, while other men would be specialists in the materials used in manufacturing the company's products, such as marble and tin in a concern making soda fountains, woolens in a clothing factory, or steel in a tool concern. Another assistant will supervise the writing and telephoning of purchase orders. Still another will attend to following up suppliers for delivery. One person will be responsible for checking invoices, and another for operating the files.

There is always considerable correspondence requiring the services of stenographers and typists. Calculating-machine operators are helpful in checking invoices and figuring discounts. As with the credit department, the office work of the purchasing department includes gathering information and keeping it where it may be quickly referred to, which requires records and files.

Routines are established to make sure (1) that no unauthorized purchases are made, (2) that purchase orders are placed promptly, (3) that suppliers are followed up for delivery, (4) that supplies are received as ordered, and (5) that payment is made for what has been received, at the prices agreed on, in time to take the cash discounts.

AUTHORITY TO PURCHASE

There are relatively few nontrading concerns where the purchasing agent buys without having a specific request to make the purchase. In other words, the purchasing agent ordinarily does not purchase anything that has not been requested and authorized. This arrangement is logical, since the reason for having a purchasing agent is to relieve the department heads of the work of purchasing. They know what they need and when they need it. However, there is nothing to prevent a purchasing agent from

suggesting to a department head that certain materials are being offered at a low price because of special conditions affecting the market. For instance, he may learn that a particular item is going to be scarce and that he can buy immediately at a favorable price. He may not have any present orders to buy this material but, by inquiring of his associates whether some will be wanted before long, he may learn that it is wise to buy now and save money as well as to be sure of the supply.

THE PURCHASE REQUISITION

The actual work of buying, then, starts with a request to purchase something. The purchasing agent receives requests for materials, equipment, and supplies from all departments of the company. These requests are called *purchase requisitions*, and it is from them that the purchasing agent finds out what is wanted

PAGE ONE			
1			
PURCHASE REQUISITION — GENERAL COMMODITIES			
CHARGE TO ACCOUNT CODE NO.		P. O. NO.	
DEPARTMENT ORDERED FOR		DATE	
To Avoid Delay State Clearly 1 What is wanted. 2 To what account it should be charged. 3 To whom it should be delivered. 4 When it should be delivered.		WANTED	
ORDER			
<hr/> <hr/> <hr/> <hr/> <hr/> <hr/>			
FOR RESALE <input type="checkbox"/> <small>CHECK IF FOR RESALE</small>			
DELIVER TO		TO BE SIGNED BY DEPARTMENT HEAD	
LOCATION		ADDITIONAL APPROVAL AS REQUIRED	
DO NOT WRITE BELOW THIS LINE			
		VENDOR	
		ADDRESS	
		PRICE	
		TERMS APPROVED FOR PURCHASE	
		PURCHASING AGENT	

From a form similar to this one, the purchasing agent learns what the other departments desire purchased.

and the quantity needed. A form of purchase requisition is shown on page 339.

The purchase requisition is a simple means of communicating to the purchasing agent the requirements of a department, as well as the authority for buying the material wanted. It should be signed by the department head and by the person requesting the purchase.

Usually, two copies are made of the purchase requisition, the number depending, however, on the requirements of the concern. The purchasing agent must have one, of course. Then if the person making out the requisition keeps a copy, he can use it to check the material against what he ordered. In some concerns, both copies go to the purchasing agent, who notes on the duplicate when delivery may be expected and returns it to the requisitioner. This duplicate also serves as an acknowledgment from the purchasing department that the original requisition has been received and acted on.

SELECTING THE SUPPLIER

As soon as the purchasing agent receives the requisition, approved by the department head, he proceeds to buy the goods requested. He may know immediately where to purchase what is requested, or he may have to make a search for it. If the item is one that is frequently ordered, the purchasing agent's records, if properly kept, will show the best source of supply and the price last paid.

Every purchasing agent has occasion to refer to his record of invoices from concerns with which he has previously dealt. In some offices, a card is made out for every kind of article purchased, giving the name of the firm from which it was bought and a complete record of prices, discounts, and allowances, together with pertinent remarks as to service, quality, and other items of interest. Sometimes, it is helpful to maintain a price record, which shows quotations received on the material that the company uses or is likely to use, with details as to prices, terms, and delivery.

In addition to the record of prices and the record of quotations, the purchasing agent should have ready access to catalogues, price lists, and other circulars received from different supply houses. These usually are filed by a numerical plan described later.

At times, no recent prices of material to be bought are available, making it necessary to get quotations or estimates from reliable firms. Where several firms are asked to bid, a specification blank may be used. When the bids have been received from concerns interested in getting the order, the buyer decides where he shall place the order, keeping in mind these requirements: quality, price, and delivery. Some concerns manufacture a very high quality of goods, but ask correspondingly high prices. Others, though producing good grades at low or reasonable prices, may be handicapped in delivering on time. A third concern may be able to make quick deliveries, and the price may be right, but the goods are not up to standard. The buyer must watch all three factors.

THE PURCHASE ORDER

When the purchasing agent has decided to which supplier he will give the order, the next step is to write out a purchase order form, similar to the one on page 342. Even when the order is telephoned to the supplier or given directly to the salesman, it is customary to confirm it in writing. Sending the purchase order is the simplest way, provided it is marked "Confirmation of order by telephone on (date)," so that the supplier will not think it is another order and duplicate the shipment. Frequently, the purchasing agent, in telephoning, will give the supplier a purchase order number, which then identifies that order.

As many carbon copies of the purchase order are made as is necessary. The original is sent to the firm from which the purchase is made. One copy is sent to the receiving department, so that the shipment can be checked when received. Some firms omit the number of articles ordered by using a short carbon on this second sheet, which makes it necessary for the receiving clerk to count articles carefully. Other firms feel that the receiving clerk can do his work faster if the quantity ordered is included.

One copy of the order remains in the purchasing department and is filed by purchase order number. A fourth copy is made on a card and used for follow-up purposes. This follow-up copy is filed with other unfilled orders, alphabetically by name of supplier. A tab signal is used to show when the order is to be followed up.

ORIGINAL

THIS ORDER FORM COMPLIES WITH THE NATIONAL STANDARD PURCHASE ORDER FORM



PURCHASE ORDER



National Association of Purchasing Agents, Inc.

11 Park Place, New York

OUR ORDER
NO. 6800

DATE _____

RENDER INVOICE TO

We prefer invoices on
Simplified Invoice Form

ENTER OUR ORDER AS FOLLOWS FOR DELIVERY TO

VIA _____

DELIVERY TO BE MADE ON OR BEFORE _____ PLEASE ACKNOWLEDGE _____
UNLESS OTHERWISE STATED IT IS UNDERSTOOD THAT THE INVOICE COVERING THIS ORDER IS TO BE SUBJECT TO A
DISCOUNT OF 2 PER CENT FOR PAYMENT ON OR BEFORE THE TENTH OF THE MONTH FOLLOWING DATE OF INVOICE

OUR ACCOUNT NUMBER	DESCRIPTION	PRICE
TOTAL		
National Association of Purchasing Agents, Inc.		
PER _____		

Courtesy National Association of Purchasing Agents, Inc.

If all purchasing departments used a standard purchase order form, there would be only one place to look for the same items of information, thereby saving time in handling the order.

FOLLOWING UP SUPPLIERS FOR DELIVERY

Unless ordered goods are received by the time they are needed, important work may be held up for lack of them. A systematic follow-up is therefore important. Each morning, the follow-up

clerk takes from the unfilled-order file the cards that need to be followed up that day. If the supplier is located in the same city, or near by, the clerk will telephone and ask when the goods will be delivered. If the supplier is located out of town, the clerk will telephone, telegraph, or write to the supplier, depending on how badly the goods are needed. If the complete order cannot be delivered, sometimes the clerk will ask the supplier to deliver part of it. Whatever response is received, the clerk makes a note on the

A form like this helps the purchasing agent to follow up purchases.

card copy of the purchase order and refiles it in the unfilled-order file for later follow-up.

Instead of a card for follow-up, one purchasing agent uses a sheet, about $8\frac{1}{2}$ by 11 inches in size, ruled with thirty-one columns to represent the days of the month. In wider columns at the left of the sheet are written the name of the supply house and a brief summary of the goods ordered, together with the date ordered. A pencil check mark is then made in the column under the date when delivery is to be expected.

Follow-up Routine. Purchase orders are followed up from two to five days before the date set for delivery. The purchasing agent or his assistant telephones to the supply house and asks what

progress is being made on the order. The reply will fall into one of three classes: (1) delivery will be made on time, (2) delivery will be made at a later date than originally agreed, or (3) delivery date is indefinite for certain reasons.

If the supply house says the order will be delivered at or before the time agreed on, no mark is made on the follow-up sheet. But if delivery is delayed, a red check mark is placed against the new date. Each time that the date is postponed, a new red check is made against the new date. When delivery is finally made, a blue check is made on the date of delivery. This shows that the order has been completed and that no further follow-up is necessary.

The red check mark serves a double purpose; it not only shows that deliveries are late, but also shows which firms do not make deliveries when promised. This information may be helpful when the purchasing agent is placing orders in which prompt deliveries are an important factor.

Every morning the follow-up sheet is checked with the shipments received during the previous day, as shown on the list that the receiving clerk sends to the purchasing department every night.

RECEIVING AND CHECKING DELIVERIES

All deliveries by suppliers are made to the receiving department. The receiving clerk signs for the goods on the trucking company's receipt, then the goods are unpacked and the contents counted and compared with his copy of the purchase order. Any discrepancy is noted on the order, which is then sent to the purchasing department as notification of the arrival of the goods. Meanwhile, the goods are sent to the storeroom or to the department that originally requested them. Many concerns require the receiving department to keep a daily report of shipments received. Two copies are made, the original being sent to the purchasing department at the end of the day, and the carbon copy remaining in the receiving department as a control.

Inspection. Inspection of the goods for quality may take place in the storeroom, in the department ordering the goods, or in a testing room or laboratory designed for the purpose. A report of the result of the inspection is made to the purchasing agent and filed.

Two Effective Controls. Some material may be received for which the receiving clerk has no duplicate purchase order. Before accepting such delivery, the receiving clerk may telephone the purchasing department to find out whether the goods were ordered. If not, he refuses to receive them from the deliveryman or else lays them aside to be returned later.

Most concerns also require the supplier to place the purchase order number on each package delivered, so as to facilitate the handling of the delivered parcel by the receiving clerk and the handling of the invoice by the purchasing department. Should

A mimeographed form like this is as effective as a printed form.

any packages be received not bearing the purchase order number, the receiving clerk may refuse to accept delivery. Where many deliveries are being received every day, and sometimes several from the same supplier, confusion may result if the purchase order number is not on each package and each invoice, so as to identify the purchase order to which each applies. There is not always time to check packages on which the supplier has neglected to place the purchase order number.

When the purchasing department receives the receiving department copy of the purchase order as notice of delivery, the follow-up clerk in the purchasing department takes the card copy of the purchase order from the file of unfilled orders, attaches it

to the receiving department copy, and puts it back in the file to await the arrival of the invoice from the supplier.

CHECKING PURCHASE INVOICES

As soon as the invoice is received from the supplier, the card copy of the purchase order, with the receiving department copy attached to it, is taken from the unfilled-order file and clipped to the invoice. The invoice clerk in the purchasing department proceeds to check the invoice against the purchase order, by comparing the information on the invoice with that on the purchase order.

First, he compares the supplier's name and the purchase order number, to be sure that they agree. Then he checks the descriptions of the goods and the quantities, and finally the prices and terms. If these agree, all that remains is to check the extensions and footings by multiplying the quantity of each article by the unit price and adding the resulting amounts. He may also compute the discount.

If his computations show that the invoice is correct, he initials it or uses a rubber stamp to indicate approval. Then he attaches the invoice to the receiving department copy of the purchase order and sends both to the accounting department for payment. The follow-up card has no further value and usually is destroyed, unless the purchasing agent wishes to keep a record of deliveries by this supplier.

Sometimes, the supplier's invoice arrives before the goods are delivered. When that happens, it may be attached to the follow-up card of the purchase order and refiled in the unfilled-order file to await the arrival of the goods. If this is done, there is a danger that the goods may not arrive until after the discount date of the invoice. To prevent losing the discount, many firms place a follow-up on the invoice, so that it will come up again to be paid in time to take the cash discount.

There is no objection to paying bills of reputable suppliers before the goods arrive. In any case, it should not be forgotten that the time within which a cash discount may be taken is reckoned from the date of the invoice and not from the time that the goods arrive, unless there is some other understanding with the supplier. Regardless of when the goods arrive, if the bill is not

paid within the time allowed for discount, the discount is not earned and should not be taken.

HOW CATALOGUES MAY BE FILED

Catalogues, circulars, and price lists from suppliers are constantly being received by the purchasing department. It is not necessary, of course, to keep everything. The purchasing agent and his assistant usually can determine quickly what should be kept and what destroyed. The material that is kept, however, will be of little or no value unless it is arranged so that it can be referred to quickly. This involves providing a place for keeping the catalogues and devising an index system for locating them.

Some concerns use bookcases for such filing; others use vertical file drawers. One Chicago concern has a cabinet that was built especially for the purpose and is very effective. It is about 6 feet high, 5 feet wide, and 10 inches deep, with shelves and compartments of varying heights and widths to accommodate the different sizes of catalogues. Each compartment bears a number to identify it.

As a new catalogue is received, it is assigned to a compartment large enough to hold it comfortably. A small gummed label is pasted on the catalogue, bearing the number of the compartment and the date of receipt. Two 3-by-5-inch index cards are made out, showing the name and address of the supplier, and the other the general nature of the material listed in the catalogue and also the name of the supplier. The compartment number and the catalogue date also are placed on each of the two index cards, which then are filed alphabetically in two drawers built into the cabinet at a convenient height for easy reference. The catalogue is placed in the compartment assigned to it. Since each compartment is wide enough to hold only five or six catalogues, any desired one may be quickly found. Two doors protect the contents when the cabinet is not in use.

QUESTIONS FOR REVIEW AND DISCUSSION

1. Why isn't the purchasing function of a business usually developed to the same degree as the sales function?
2. What are the four general types of items purchased by business concerns? Can you think of any items that do not come under these four heads?

3. Contrast the buying of merchandise with the purchasing of materials.
4. Why is uniform quality of materials necessary, and how can a firm be assured of always getting the quality ordered?
5. What advantage is there sometimes in having to buy substitutes?
6. What points should be considered before equipment of any kind is purchased? Illustrate your answer with examples.
7. How is the purchase of equipment usually restricted in many concerns?
8. What does the term "supplies" include?
9. Should supplies be purchased on specification, the same as materials? Explain.
10. What may happen if supplies are purchased on a price basis rather than on quality?
11. Why is the question, "Who should handle the purchasing?" important?
12. What are the advantages of centralization of purchasing over decentralization?
13. What are some of the features of the organization of the purchasing department?
14. What routines are established in the purchasing department?
15. Should the purchasing agent ever make purchases without specific authority? Do you think that restriction is likely to impair the value of the purchasing agent to the company? Why or why not?
16. Describe a purchase requisition, and explain fully the routine of purchase requisitions.
17. What records aid the purchasing agent in handling purchase requisitions?
18. In deciding where to place a purchase order, the purchasing agent keeps in mind the three factors of quality, price, and delivery. Why? Comment.
19. Describe the routine of the purchase order.
20. Why are several copies of the purchase order made by some concerns?
21. How does the purchasing department follow up purchase orders?
22. Describe the routine of the receiving department.
23. Where and why are purchased goods inspected? What happens when the receiving clerk receives material for which he has no duplicate purchase order?
24. Why should the supplier place the purchase order number on each invoice and each package?

25. How does the purchasing department know when ordered goods have been received?
26. Describe the purchase invoice routine of the purchasing department.
27. Comment on the practice of taking cash discounts before the goods have been received.
28. Describe a system for filing catalogues and price lists in a purchasing department. Have you any additional suggestions?

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees.

1. Ask some purchasing agent to explain the purchase order routine in his firm.
2. From the purchasing department of another local concern, get a complete set of purchase orders. Across the face of each copy, write what is done with that copy, and why.
3. Describe the arrangement of a storeroom in a local concern.
4. Watch a clerk in some purchasing department check several invoices. Describe what he did and why.
5. Find out how catalogues are filed in some local concern.

PROBLEMS

1. Purchasing agents usually place orders on the basis of price, delivery, and quality, sometimes referred to as P.D.Q. Which of these three factors do you think is the most important? Why? Ask three of your classmates this same question. Then ask a purchasing agent, a factory manager, and a mechanical engineer. Compare the answers you receive, and then revise your own conclusions in the light of this information. If the three men gave different answers, can you explain why they were different?
2. The work of the purchasing department includes placing orders, following up suppliers for delivery, and checking the invoices for payment. Which of these do you think is the most important? Why? What answer would a supplier probably give? Why?
3. Prepare a standard practice manual for use in the purchasing department of a business concern in your community. This manual should describe every step taken by the purchasing department from the time that it learns that something is wanted until the goods are received from the supplier and placed in the storeroom or delivered to the department that wants them, and the bill checked and turned over to the treasurer for payment.

Prepare the forms used in the purchasing department, and in your manual show how the forms are used.

Also prepare an organization chart of the purchasing department, indicating clearly the duties of each person in the department.

- a. What items are bought by the purchasing agent of the company selected?
- b. Where does he buy these items?
- c. Are these items, when received from the supplier, placed in a storeroom?
- d. How does the purchasing agent know when more supplies are needed?
- e. What steps are necessary before an order is placed?
- f. How is the order placed with the supplier?
- g. Does every supplier deliver the ordered goods when they are wanted? If not, how is the order followed up?
- h. When do the suppliers usually send their purchase invoices?
- i. How does the purchasing department handle purchase invoices?
4. How can a purchasing agent check on how much to order if he thinks that the requisition is either too much or too little? Explain.
5. The purchasing agent of a manufacturing concern orders his hardware and plumbing supplies through a dealer. An order comes through every other week for certain standard sizes of fittings. If the agent could order large quantities two or three times a year, he believes that he could get jobber's prices. How can he find out how much to order? Should he try to do as he proposes? Explain.
6. Following usual practice, the purchasing department of a manufacturing concern buys certain standard articles only when requested. One item, used only by the production manager or engineer, is always requisitioned at the last minute, when they are in a rush to get it. What should the purchasing agent do? Give your reasons.
7. The buying for a five-and-ten-cent store is divided between the manager, the assistant manager, and the floorman. Each buys for a certain number of departments. All the orders for each week should be in by Wednesday of that week, but usually they are late. The men say that their other work keeps them busy. The manager, who O.K.'s all orders, is always behind. Also, he is limited to a certain amount each week for buying. Usually, the orders have to be reduced, and often the goods that are most needed are cut. What is the problem, and how would you solve it? Give your reasons.

CHAPTER XVI

Organization for Storeskeeping

The storeskeeping function is concerned (1) with providing places for safely and conveniently storing materials and supplies that are not needed for immediate use, (2) with disbursing or issuing such materials as required, and (3) with seeing that supplies do not run out before additional quantities are ordered and received. One person usually is placed in charge of all stored materials and supplies and made responsible for everything in connection with them. He may be called the storeskeeper, the stock clerk, or the stockman. In a large concern, he may have several assistants, including one or more record clerks. In a smaller concern, he also may be responsible for receiving and shipping, since there may not be enough work in any one of these jobs to require the full time of one person.

THE TWO PURPOSES OF A STOREROOM

The storeroom, where everything is kept that is not needed immediately—whether it is called stores, stock, supplies, raw material, merchandise on hand, or any similar name—serves two purposes of nearly equal importance: (1) safety from fire, theft, and deterioration, and (2) accessibility.

The same principles of good storeskeeping apply, whether the stores are kept in a small supply closet or in a ten-story warehouse; whether they are kept in tanks, as oil and other liquids, or spread over acres of ground, as in a lumberyard. In some instances, fire-proof vaults are required for safety; in others, metal bins, racks, shelving, or containers are needed for convenience. If the equipment is movable, adjustable, and interchangeable, it can be adapted to meet the changing requirements of the storeroom.

HANDLE STORES LIKE CASH

In any case, stores must be kept under lock and key, with access to them strictly limited to a very few persons. When materials and supplies are kept haphazardly and not under adequate control, there is certain to be waste due to careless handling and sometimes theft. There is no reason why stores should not be handled as carefully as cash—that is, with strict accountability. In one respect, stores are a form of money, since stolen goods often are exchangeable for money. Deterioration from dust, heat, sunlight, falling, dampness, dryness, and similar causes must be prevented by proper methods of storage.

WHERE TO LOCATE STOREROOMS

The location of storerooms is an important factor. Logically, they should be close to or in the departments that they serve, so that no time may be lost in procuring items needed by the workers. Since this is not always possible or feasible, provision frequently is made for a central storage section where the main supply is kept and for local supply centers in or near each department. Any modification of this plan can be applied to suit the circumstances and the type of business. The principles of stores-keeping are the same, whatever location plan is followed.

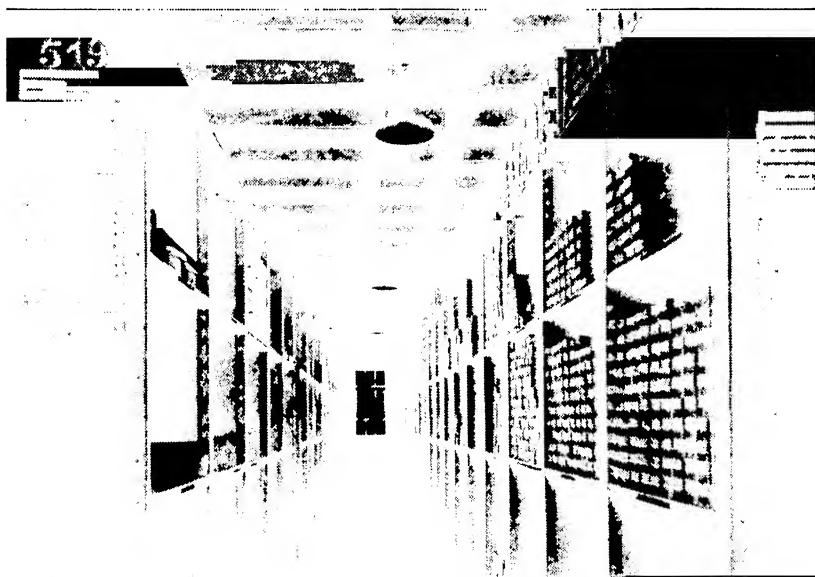
If small local supply depots are used, a close check should be maintained to prevent items from constantly running out. The main argument against small local supply stations is the expense of carrying the larger total stock required, and the larger spoilage and deterioration likely to accompany decentralization. Against this larger cost should be placed the saving of time in getting quickly what is desired. Often a compromise between the two is necessary. One company provides for each desk worker an individual supply cabinet attached to the wall, which can be reached without moving from the desk.

In addition to being conveniently near those departments served, storerooms should be located near the receiving department to avoid too much handling and transportation; yet this point is sometimes overlooked. Unnecessary handling of materials adds to the cost, but not to the value. For the purpose of this study, let us consider that the stores are kept in one or two rooms,

adjacent to the receiving and shipping department, and that metal bins and shelving are used to hold the materials stored.

HOW TO ARRANGE A STOREROOM

The arrangement of the storeroom itself has a bearing on the effectiveness of the service it renders. If intelligent thought is not given to this point, some items will be misplaced, others will not be easy to select quickly, and both time and energy will be wasted



Courtesy Hibbard, Spencer, Bartlett & Company

A place for everything and everything in its place, where it can be found quickly when wanted.

in issuing stored materials. Three factors are involved in storeroom arrangement: (1) Where shall incoming stock be received and unpacked? (2) Where should the delivery window or door be placed? (3) Where should each kind of item be stored for greatest convenience?

The area chosen for receiving and unpacking in the storeroom should be large enough to allow freedom of movement and should be located, if possible, equally distant from all parts of the room, and thus save unnecessary travel. Also, since this section may be untidy at times, it should not be visible from the delivery window. In addition, provision should be made for prompt disposal of

packing material on account of the fire hazard. Daily inspection of all stock rooms is not too frequent. The storeskeeper should be a good housekeeper and take pride in the appearance of his department. Neatness and orderliness in the stock room are indications of good management; but constant vigilance and attention are necessary to maintain a high standard of neatness, order, and accessibility.

Keep Convenience in Mind. The delivery window, like the unpacking section, should be equally distant from all parts of the storeroom. Within easy reach of the window should be placed those items that are most frequently called for. In some cases, one or two days' requirements may be kept near, the supply being replenished daily from the main stock in a less accessible part of the stock room. However, there should not be too many places for storing the same item, lest some of them be overlooked. Ordinarily, there should be only one place for the entire stock of each item, never more than two places—one for the current day-to-day supply, and the other for the main stock.

The amount of space allotted to each item will depend on the maximum quantity to be kept on hand. Heavy items should be stored near the floor, so as to require little lifting when being stored and when being issued. In laying out the stock room, the location of each item should be marked on a diagram of the room, and the bin and shelf also marked, so that when the stock clerk is away, the manager or any other authorized individual can find any material needed. An alphabetical index helps to locate desired items. This may be posted on the wall near the delivery window, or in some other convenient place where it can be referred to quickly.

ISSUE NOTHING WITHOUT AUTHORITY

Nothing should ever be issued from stock without proper authority, so as to be sure that the person asking for the material is entitled to receive it and that it is charged to the proper department or account. In well-managed concerns, this is shown by a slip of paper indicating what is wanted, who wants it, who is receiving it, and to whom it is to be charged. This slip of paper, called a *stock requisition* or *material requisition*, bears the signa-

ture of a department head or other person authorized to approve requisitions for withdrawal from stock.

The stock clerk examines the requisition to see if it has been properly approved and if the number of the account to which it is to be charged also appears. He consults his index, if necessary, to locate the bin or shelf where the material is stored. He goes to that bin, counts the material called for, and delivers it to the requisitioner. Then he makes a check mark on the requisition to show that it has been filled.

ONE WAY OF SAVING TIME

In some concerns, instead of delivering stock supply items to persons who present themselves at the delivery window, provision is made for collecting from each department, on certain days, requisitions for supplies needed for a predetermined period, such as for the coming week. The stock clerk picks the items from stock, loads them on a delivery truck, and takes them around to the departments concerned. This plan has a number of advantages. Employees do not have to leave their workplaces to get supplies; they notify their supervisors in advance of their needs, or a supply clerk checks the quantity on hand at each workplace and replenishes it to the amount determined as standard.

This method is in line with the modern tendency to bring work and materials to the worker and take away the finished work, thus enabling him to concentrate on his job rather than on hunting up the needed materials and supplies. There do not seem to be any disadvantages, provided, of course, the work is adequately supervised.

Wide Aisles. If a truck or wagon is used, the aisles in the stock room should be wide enough to permit its passage, so that stock can be placed on it directly from the shelves or bins, without unnecessary lifting and carrying. Wide aisles and the use of a truck also facilitate placing stock on the shelves when the supply is being replenished.

As stock is received, it should be inspected, counted, recorded on whatever stock record is kept, and placed in the back of the bin assigned to it. The old supply should be moved to the front or placed on top to ensure its being used first.

HOW MUCH STOCK ON HAND?

The work of the stock clerk does not end with storing material and supplies conveniently, locating them quickly, and issuing them on requisition. In many concerns, the stock clerk is expected to know exactly how much of every kind of material is on hand at any time. There are four reasons for this.

1. Since the stock on hand is part of the assets of the company, the controller must know how much stock is on hand in making up a balance sheet.
2. If insurance is carried on the stock, the amount and value of the stock determines the amount of insurance to carry.
3. The manager must know whether enough material is available to fill orders or to carry out certain plans.
4. It is important to obtain a new supply before the present supply runs out, so that operations may not be held up for lack of materials or supplies.

A good stock clerk never lets his stock of any article run completely out before ordering a new supply. On the other hand, there should not be so much ahead that it will deteriorate before it is used, to say nothing of taking up space for which the company may be paying rent. ↗

DETERMINING WHEN TO ORDER A NEW SUPPLY

A satisfactory method of keeping a check on stock is to set certain quantities as a minimum, below which the stock on hand will not be allowed to go before a new order is placed. This *order point* is the largest quantity that may be needed while a new supply is being provided. It is set for each item of stock and is based on (1) the character of the materials or supplies, (2) the rate of use shown by experience, (3) the time required for manufacture and delivery, and (4) the trend of prices. When the quantity on hand reaches the order point, the stock clerk makes out a purchase requisition for a new supply and sends it to the purchasing department. The amount to order is not left to chance, but has been previously determined for each item in stock. It represents a quantity that will last for a reasonable time before a new supply must be ordered. If set too low, the supply must be replenished more frequently than is necessary or desirable; if too high,

stock may deteriorate or become obsolete. It is determined by the movement of stock in and out of the storeroom, as shown by the stock records. When the new supply arrives, the stock clerk places it behind what is left of the old supply. If estimates of quantities have been carefully made, the old supply will have been nearly used up by the time that the new comes in.

In some concerns, the term *maximum* is used to designate the largest quantity of any item that should be carried in stock, and *minimum* to designate the smallest quantity that should always be on hand. Obviously, requirements may be abnormal at times, making these terms theoretical rather than practical.

NO REORDERS WITHOUT OFFICIAL APPROVAL

Here it might be well to mention a point that is sometimes overlooked. No item should be reordered merely because the supply is running low. In well-organized and carefully managed businesses, provision is made for a review of all purchase requisitions for stock items by someone who can decide which items should be reordered and which should be allowed to run out. In the case of printed forms, for example, when the supply reaches the order point, the stock clerk sends a copy to the head of the department using the form, accompanied by a question sheet concerning its use or any suggested changes.

The department head answers the questions and passes it on to the office manager, who makes whatever investigation is necessary and approves or disapproves the reprinting of the form. This also gives everybody an opportunity to make any desired changes in the form before it is reprinted. By making this a routine procedure, there is slight chance of having an oversupply of discontinued forms or similar supplies.

DON'T RUN OUT OF STOCK BEFORE REORDERING

A plan that many concerns find effective in preventing stock from running out is known as the *reserve plan*. A quantity equivalent to the order point is set aside as a reserve, wrapped or placed in a small box, bag, or envelope of the proper size, and plainly labeled in red, "Reserve." This reserve supply is placed back of the regular supply. When the regular supply is used up, it is necessary to open the reserve package and to place a new order at

once. Under this plan, it is not necessary to keep stock records to maintain a sufficient supply on hand. Notification is automatically brought to the stock clerk's attention when the reserve package is opened.

With materials stored in racks, the quantity representing the order point may be banded or tied together with red tape and not disturbed until the rest of the material in that rack is issued. With heavy or bulky material, a red dividing board may be placed



A label like this, printed on red paper, is pasted on the outside of packages to be set aside as a reserve

above the quantity representing the order point. If a full bin or shelf is an order point, that fact must be indicated by the red label. The only time that the reserve plan might fail is when a large enough reserve has not been set aside. Experience will decide the quantity.

HOW OFTEN SHOULD INVENTORY BE TAKEN?

Many firms keep their stock records on cards that show quantities received and quantities issued. The difference should be the balance of stock on hand. Whether it is accurate can be determined only by actually counting the stock. Such a count, called a *physical inventory*, is taken by some concerns once a year and by others monthly or weekly. Usually, two employees work together in taking inventory, one doing the counting, while the other records the quantities counted as they are called off. If the records are carefully kept, a complete physical inventory may not be necessary oftener than every six months or once a year.

On the other hand, some concerns keep a continuous check on their stock records by having a stock clerk take one section of the stock room each day and compare the actual amount on hand with the stock record, correcting the record if necessary. In any case, items no longer used should be taken out of stock and disposed of, to make room for currently used items. Some concerns examine their stock record cards at intervals and investigate all cards on which there have been no issues since the last inspection. In this way, obsolete items are cleared off the shelves.

PERPETUAL INVENTORY

Some concerns keep a *perpetual inventory*, which in its simplest form is a stock record card showing receipts, issues, and balances. Sometimes, a perpetual inventory record also shows

This stock record card is devised to reduce to a minimum the amount of work required to watch stock.

quantities marked, scheduled, apportioned, allocated, or set aside for designated jobs or orders, so that the material thus indicated will not be used otherwise. Effective production control requires needed materials to be on hand before the manufacturing process is started, to avoid delays due to the lack of materials.

To be of value, it is obvious that a perpetual inventory record should be kept strictly up to date at all times. Items received and

issued must be entered on the cards the same day, every day. The perpetual inventory record shows the minimum stock to be kept on hand, and as withdrawals are entered, the clerk compares the balances with the minimums. The stock requisitions, from which withdrawals usually are posted to the stock records, then may be sent to the accounting department for pricing and charging to the departments concerned.

Some companies have the record work done by the stock clerk; others have it done in the purchasing department; in still others, the cost accounting department does this work. Where it is done and who does it are largely questions of convenience and ease of supervision. If the records are kept elsewhere than in the stockroom, the storeskeeper should keep a *bin tag* on each bin and for each kind of material in the bin, specifying the name and symbol of the material, the quantities received, on hand, and delivered, and the manufacturing orders to which they are issued or apportioned.

Sometimes, it is necessary to keep a perpetual inventory only of certain items. In such cases, it would be a waste of time and money to operate a perpetual inventory of all items. Once the purpose of any record is clearly determined, it is relatively easy to select the type or combination of types of records necessary to accomplish the purpose.

QUESTIONS FOR REVIEW AND DISCUSSION

1. What is the meaning of the word "stores"?
2. With what is the storeskeeping function concerned?
3. What personnel may be needed for storeskeeping? Give the usual titles, and describe their work.
4. What two main purposes does a storeroom serve? Does the size of the space and nature or quantity of materials influence these purposes?
5. Why should stores be kept under lock and key?
6. From what causes may stores deteriorate?
7. Comment on the centralization of storerooms versus decentralization.
8. What three factors are involved in the arrangement of the store-room? Comment on each briefly.
9. How often should stock rooms be inspected? Why?

10. How can the stock clerk remember where each item in the stock room is located?
11. Explain this statement: "Issue nothing without proper authority." Why?
12. What is a stock requisition?
13. What is the stock clerk's procedure when a stock requisition is presented to him?
14. Instead of delivering supply items at the window, what practice is followed by some concerns? What are its advantages and disadvantages?
15. How may one determine how wide the aisles of the stockroom should be?
16. Describe the stock clerk's procedure when stock is received.
17. What are the four reasons for a stock clerk's always knowing the quantity on hand of each item in the storeroom?
18. Describe or explain a satisfactory method of keeping a watch on stock?
19. What relation has the "order point" to the "amount to order"?
20. Explain the terms "maximum" and "minimum" as used to designate stated quantities of stock.
21. When the new supply of an item arrives, where does the stock clerk place it? Why?
22. "No item should be reordered merely because the supply is running low." Explain.
23. Describe the reserve plan of watching stock.
24. Describe stock records in general.
25. Explain physical inventory. How often should it be taken? Why?
26. Explain perpetual inventory.
27. What factor makes or destroys the value of a perpetual inventory?
28. If perpetual inventories are kept, should they be kept of all items? Why or why not?
29. Who handles the record work of the stock room? Why?

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees.

1. Visit five retail stores, and find out how merchandise is unpacked, inspected, marked, and placed on the shelves.
2. Ask the cost accountant of a manufacturing concern what he does when his physical inventory shows less stock than his stock records show.

PROBLEMS

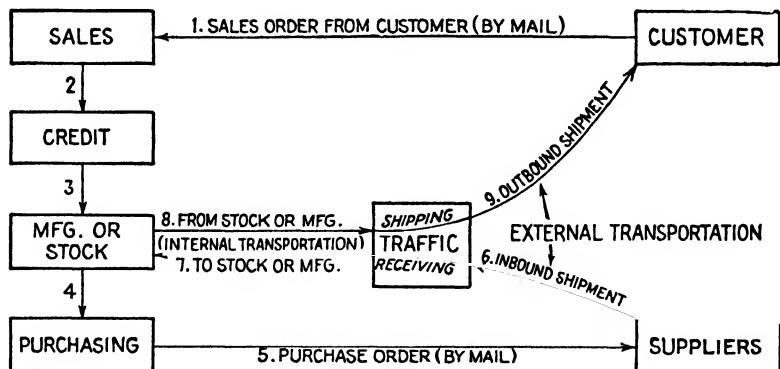
1. A national concern with several branches requires all stationery needs to be filled from the home office. Transportation charges are lessened by packing stationery items with goods shipped from the home office plant. The stationery stock clerk also supplies the home office force of several hundred persons and feels that he is interrupted so often by stationery requisitions for the home office that he gets behind with the branch stationery orders. With proper organization and supervision, one stock clerk can fill all stationery orders in both branch and home office. What suggestions have you? Give your reasons.
2. In a department or business that is too small to afford a supply clerk, but where there is considerable loss from wasteful use of supplies, what would be the best way to control supplies?
3. Although the display stock on the shelves of a chain store is arranged according to a definite pattern, the reserve in the stock room is left where it is placed when delivered. Because of this, a great deal of time is lost looking for stock, and it takes much longer for new clerks to learn the stock. What would you suggest? Give your reasons.
4. When goods are received and are needed immediately in the sales department, should they first be checked into the storeroom and then sent to the sales department, or should they be sent first to the sales department and a receipt sent to the storeroom? Give your reasons.
5. The storeroom of a small manufacturing company is located in the factory. As the demand for materials is not great, the superintendent keeps the key, and the workmen come to him when they want supplies. Since each workman has a different way of obtaining his materials or supplies, there is always disorder in the storeroom, and some items are lost or damaged. How may this be corrected if the factory cannot afford a storeroom clerk?
6. The chief clerk of a stock room finds that several articles of stock are quite low; yet his records show that there should be a sufficient supply of each on hand to meet requirements. How can this situation be improved? Give your reasons.
7. A fruit store with an outside display has the problem of passers-by taking an apple or a banana or similar fruit without paying. During the course of a week, the loss is considerable. What can be done to eliminate this loss without putting the display inside the store?

8. A manufacturing concern sends in this inquiry: "We have a very effective purchasing department in that it gets the goods to the plant, but our storage department often misplaces goods, and we find ourselves making out orders for goods that are in stock but cannot be found. Can you help us?" What suggestions can you give? Give your reasons.

CHAPTER XVII

Organization for Traffic Management

The traffic department is responsible for the safe, rapid, and economical transportation of goods and materials, whether incoming or outgoing. For outbound shipments, it (1) selects the best method of transportation, (2) notifies the carrier selected, (3) delivers the goods to the carrier, and (4) frequently follows the shipment to its destination to see that there are no delays in delivery. For incoming shipments, the traffic department frequently

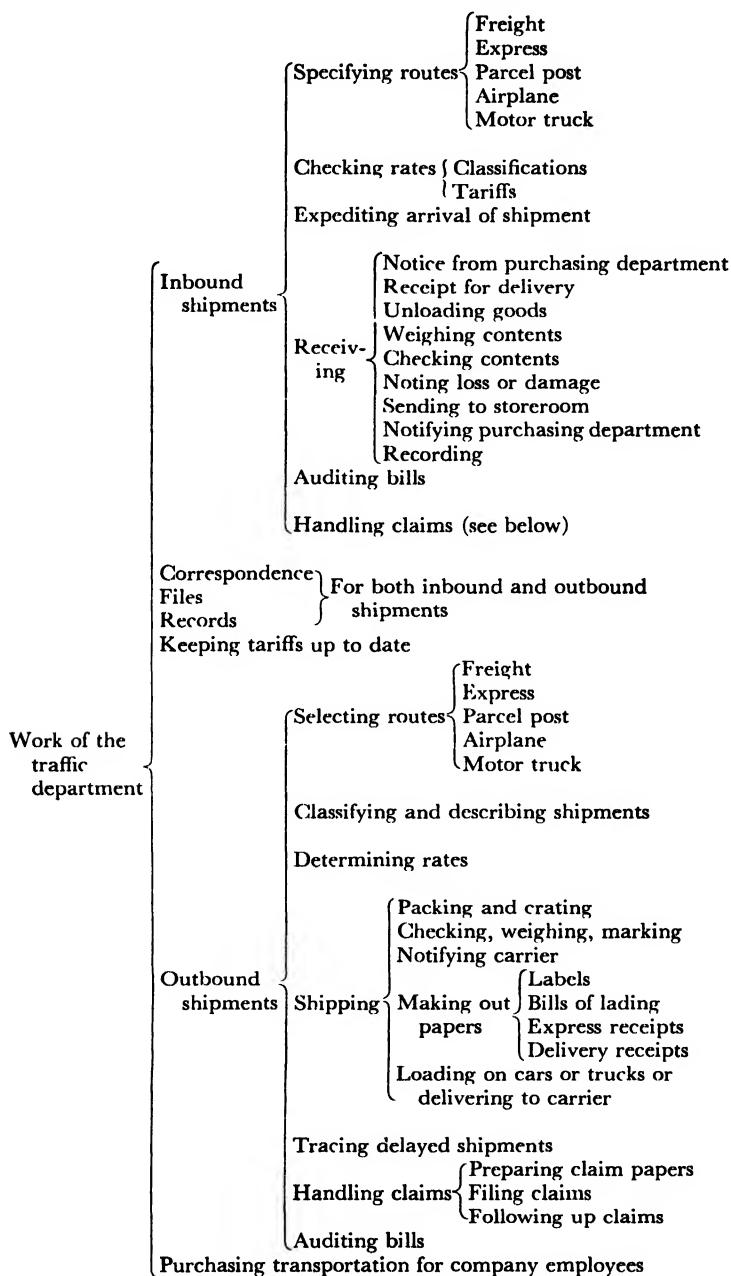


Position of the traffic department in a business organization.

specifies the method of transportation and follows the shipment to ensure its safe and prompt arrival.

The main duties of the traffic department are as just stated, but a study of the full-page chart will show other duties to be performed if the responsibilities of the department are to be completely discharged.

The Work of the Traffic Department

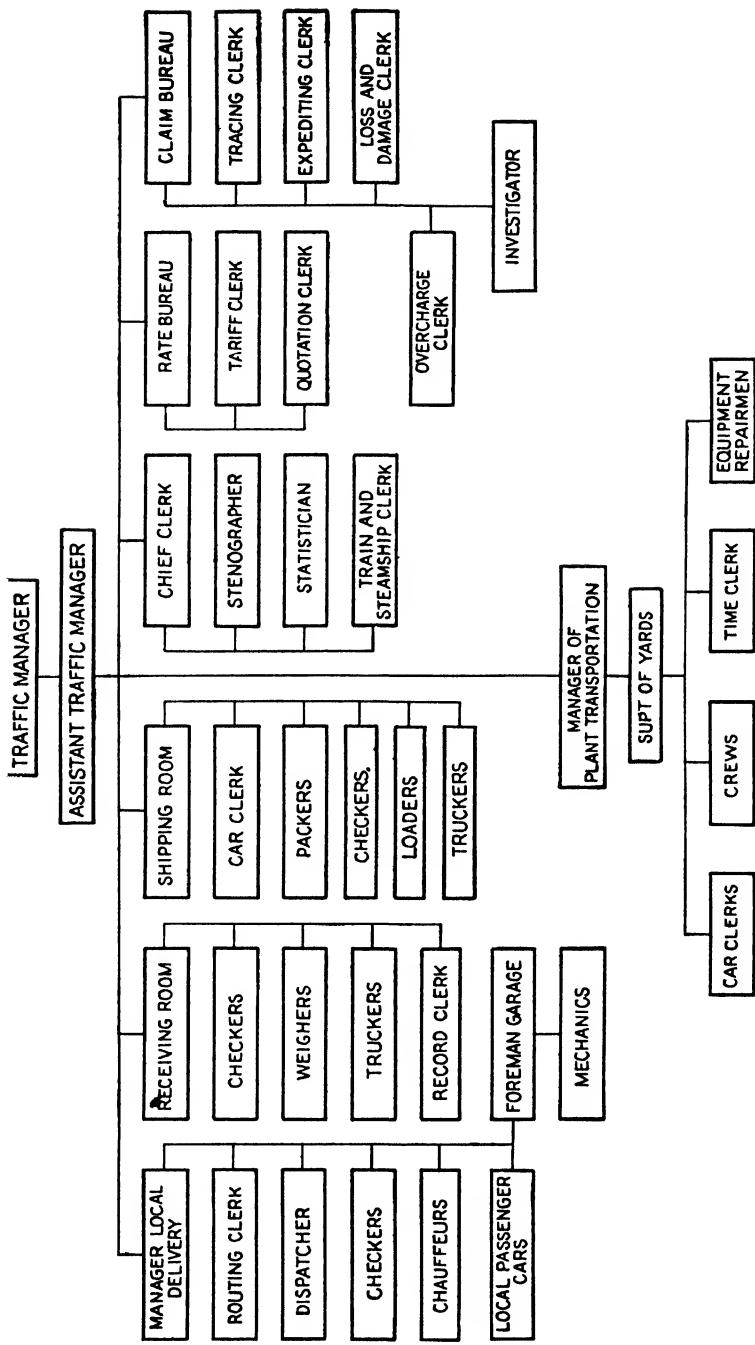


Many concerns do not have traffic departments. Instead, a shipping clerk performs the traffic function, and his department is called the shipping room. Most concerns have receiving rooms, which receive all goods delivered to them. In others, the stock clerk may handle the receiving work, or he may handle both receiving and shipping, acting as both shipping clerk and receiving clerk. When there is enough work to keep more than one man busy, two or more persons handle the duties, either separately or jointly, whichever is desirable under the circumstances. Sometimes, the receiving room is a part of the purchasing department, since the purchasing agent buys what is received. Where there is a traffic department, both shipping and receiving usually are a part of the traffic department. This is a good illustration of the distinction between functions and the organization set up to handle those functions. Bear in mind that the functions exist, regardless of the organization set up to handle them.

ORGANIZATION OF THE TRAFFIC DEPARTMENT

In charge of all traffic matters is the traffic manager, who is an expert on everything connected with his function. Not only is he responsible for the proper operation of the department, but he also conducts negotiations with carriers and appears before state and Federal commissions concerned with transportation. The most important of these is the Interstate Commerce Commission, with jurisdiction over the transportation of goods between states by every means except by water, which is under the jurisdiction of the Maritime Commission, and by air, which is under the jurisdiction of the Civil Aeronautics Board.

In a large concern, there may be an assistant traffic manager or a chief clerk who looks after the details of the department management, leaving the manager free for outside conferences. Other members of the traffic department may include rate clerks, tracers, packers, checkers, record clerks, file clerks, stenographers, and typists. Each of these has specific duties to perform. One person may handle several different duties; but in large concerns, several persons may be required to handle one duty, such as rates. Considerable correspondence passes through the traffic department, and the department files are important in keeping track of



This chart shows how one traffic department is organized to do the work shown.

From L. A. Bryan, "Industrial Traffic Management"

correspondence and other papers concerning the movement of goods.

INCOMING SHIPMENTS

Incoming shipments are concerned with goods that have been bought from other companies. Such goods are shipped as a result of a purchase order sent to the supplier by the purchasing department, as indicated on the accompanying chart, which shows the responsibilities of the traffic department in a business organization.

Method of Shipment. The supplier may ship goods in any of several ways. If he is located in a distant city and there is no special hurry for the goods, or if the goods are very heavy and not costly, they will probably be shipped by rail freight, since freight charges are lower than other forms of transportation. Motor freight is also widely used, especially in thickly settled regions.

If the goods are wanted immediately, they may be shipped by express, which is more expensive than freight, but much quicker. When an emergency exists, such as a broken machine standing idle while awaiting repair parts, the parts may be shipped by airplane in a few hours. Packages up to certain limits of size and weight may be shipped by parcel post. Deliveries within the city or neighboring communities usually are made by truck. Small items frequently are delivered locally by a messenger, either on foot, bicycle, or motorcycle.

Selecting the Route. If the purchasing department has a choice of the method of transportation, the purchasing agent states in the purchase order the method and route by which the goods are to be shipped. The choice depends largely on the urgency and expense, although sometimes other factors enter, such as safety from breakage or pilfering, care of perishables and livestock, and special services.

To determine which method and route is best under the circumstances, the purchasing agent depends on the traffic manager, who is an expert in such matters and can indicate not only the best route, but also the exact cost of each route and method. Sometimes, the shipping instructions read, "Ship best way." This means the least expensive way, which is usually the slowest also. Goods may be so shipped when there is no hurry for them. If the

fastest way is desired, then the shipping instructions should read, "Ship quickest way."

Notice of Shipment. When a supplier makes a shipment, he sends notification of when the shipment was made and by what carrier and route. This notice, called a bill of lading in the case of freight shipments and in other cases an invoice, is received by the purchasing department, which immediately notifies the traffic department that a shipment is on the way from a certain supplier and by a certain route. From then on, the traffic department watches for the shipment. If it does not arrive in due time, or if there is great need of it, the traffic department will follow up the carrier to find out where the goods are and to get them delivered as soon as possible.

The Receiving Clerk's Part. When the shipment arrives, the receiving clerk takes charge, giving the carrier a receipt for delivery (usually by signing a receipt), unloading and unpacking the goods, and checking them against the packing slip that accompanies the goods and against the copy of the purchasing order, if he has one. He also examines the shipment for signs of damage. If he finds any, he has the carrier's agent note the damage on the bill of lading, on the freight bill, or on some other memorandum. The traffic department then presents a claim to the carrier. If there is a shortage, as shown by counting or weighing the contents of the shipment and comparing the weight or quantity with that on the packing slip or invoice, the receiving clerk notifies the purchasing department and asks whether he should make a claim against the carrier for the loss. The goods are then sent to the storeroom or to the department for which they are intended. Finally, the receiving clerk makes a record on his shipments-received sheet for that day.

OUTGOING SHIPMENTS

Whereas incoming shipments are the result of purchase orders placed by the purchasing agent, outgoing shipments are the result of sales orders placed by customers or taken by salesmen. In other words, a firm's purchase orders are its suppliers' sales orders, and customers' purchase orders are a firm's sales orders.

Selecting the Route. When a customer places an order, he should indicate how he wants it shipped. To many customers,

however, it does not make much difference so long as they get their goods promptly and economically. In such cases, the traffic department usually selects the route and method of shipment. The same considerations apply that were stated above for incom-

How One Supplier Warns Its Customers

DAMAGED GOODS

Our responsibility for safe delivery ceases when the transportation company accepts shipment in good order. The goods then become the property of the consignee, and the transportation company acts as your agent in so far as assurance of safe delivery is concerned.

Unpack and inspect all shipments within fifteen days of receipt.

In case of visible damage, have carrier's agent make a notation on the freight bill of the extent of the damages.

In case of concealed damage, notify the railroad company by telephone immediately on your discovery of the damage, and insist on prompt inspection by them before the article is further unpacked. (Be sure to confirm your telephone conversation in writing.) If the article is fully unpacked before discovery of the damage, save the shipping container until the railroad inspector has made disposition, and insist on a copy of his inspection report.

Unless this procedure is followed, the carriers will refuse to entertain claim for damages.

(Courtesy Spaulding-Moss Company)

ing shipments, due regard being given to speed, cost, and safety of transportation.

THE EFFECT OF CLASSIFICATION ON FREIGHT RATES

In connection with freight shipments, the traffic department is much concerned with classification of products and its effect on freight rates. Under the regulations of the Interstate Commerce Commission, there has been prepared an alphabetical list that includes every known article and the various forms it may take,

such as crude, rough, or finished, set up or knocked down, loose, in bulk, boxed, or otherwise packed, liquid or dry, and so on. Each of these listings comes under a designated classification, and the freight rate between any two points is determined by the classification.

Obviously, every company wants to get the lowest freight rate possible; therefore, the rate clerk in the traffic department looks

Factors That Determine Freight Rates

1. Description
 - a. Class or commodity name
 - b. Material composing article
 - c. Purpose or use of article
 - d. Condition (finished, unfinished, raw, damaged, scrap)
 - e. Tariff classification of article
 - f. Value of article per pound
2. Size and weight
 - a. Weight of individual article
 - b. Minimum weight of carload
 - c. Size of crate or package
 - d. Method of packing
3. Destination
 - a. Point within same state
 - b. Interstate shipment
 - c. Same classification territory
 - d. Another classification territory

(Courtesy System)

up the classification of the company's product to find the rate. Curiously enough, an article may sometimes come under more than one classification. In such cases, the shipper naturally chooses the lowest classification. If the choice were left to the carrier, a higher classification might be chosen.

Commodity Rates. There are also special rates, called commodity rates, which are usually lower than the class rates and are applied chiefly to low-grade materials. An article with a commodity rate takes that rate, provided the rate clerk finds it on the schedule.

THE TARIFFS

We are not concerned in this book with how classifications and commodity rates are established; those are highly technical matters for the traffic manager. But we are interested in the fact that changes constantly are being made in the tariffs, which are the schedules of rates and classifications. These tariffs range from a single sheet or even a single page to over a thousand pages and are issued by the carriers under the authority of the Interstate Commerce Commission, as provided by the Interstate Commerce Act and amendments to it.

In the course of a year, nearly 100,000 tariffs may be filed with the commission, containing changes in rates of carriers by express, pipe line, rail, and highway. Therefore, three things are important for the traffic department: (1) to be sure it has the latest tariffs, (2) to be sure that the tariffs are filed for quick reference, and (3) to be sure that company products take the lowest classifications and rates available. If the latest tariffs are not at hand, the traffic department may find that a rate on which a price was based has been changed. If the lowest classifications and rates are not always found, then transportation charges will be too high to meet competition.

The tariffs, giving the rates from the shipping point to all other points in the country on different classes of merchandise, are furnished to shippers by the transportation companies. They should be indexed alphabetically by the names of the transportation companies issuing them and should be filed in special filing equipment devised for the purpose so that they are immediately available. One of the most approved tariff files in use by transportation companies and large shippers is arranged so as to bring all the tariffs into view, keep them in good condition, and permit the alphabetical filing of folders, with papers of different sizes.

A Timesaver. Almost every concern has customers or cities to which it makes frequent shipments of the same articles. Instead of looking these up in the tariffs every time a shipment is made, it is helpful to prepare a file of rate cards showing the express, freight, and parcel post rates to the different localities. These are filed by states, the cities being arranged alphabetically under each state, and the customers under the cities where they are located. Of

course, this card file must be kept up to date by examining new tariffs as they are issued.

PROPER PACKING IS IMPORTANT

Because the traffic department is responsible for all factors concerned with safe transportation, proper packing is another important duty of the traffic department. It is often possible to save not only a great deal of unnecessary breakage in shipment, but

Hutchinson, Cornell & Co. 246 Roosevelt Street Sandstone, Arizona	C., R.I., & P. .72 Ry X 1.10 Zone 3	Arkansas Desert Co. Sandstone
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Special directions:

This rate card shows freight, express, and parcel post information from Chicago, Illinois, to Sandstone, Arizona. If desired, it could be kept in visible record form for quick reference.

also unnecessarily high freight charges if the best method of packing is adopted. Usually, the responsibility for packing is with the shipping clerk, although, where large quantities of material are shipped, there is sometimes a special packing department, which may or may not be under the supervision of the shipping clerk. In some concerns, the method of packing is standardized by the traffic department for each product that the company handles.

Proper packing means that the goods are packed so as to minimize the chances of loss, theft, breakage, and deterioration from weather. The importance of proper packing may be realized from the fact that every few months the post office and other carriers hold public auctions of articles that could not be delivered for one reason or another, including improper packing. In one year

alone, the post office reported that 482,000 parcels went to the dead-letter office—and those are only parcel post figures.

As goods are packed, they are also checked against a copy of the sales order. This copy is called the packing slip and usually is placed in the shipment after it has been checked to be sure that all items ordered have been included. Many concerns have both packer and checker put their initials or other identifying symbols



Conveyors speed up the filling and shipping of orders in this shipping room.

on the packing slip, thereby fixing their responsibility. When the customer opens the shipment, he can compare the contents at once with the packing slip.

As soon as the package or box has been closed and sealed by nails, twine, metal strapping, gummed tape, or whatever other fastening method is used, it should be weighed, and the weight marked on the outside. The customer also should weigh the shipment before he opens it. A discrepancy is *prima facie* evidence of loss in transit.

LABELING OR MARKING THE PACKAGE

Next comes the labeling of the package, or *marking*, as it is called. Many concerns make out the label in the order department

at the same time that the order is copied, sending the label to the shipping department. In other concerns, the shipping clerk makes out the label, which may be a gummed piece of paper to be pasted on, or simply a tag. On crates and boxes, instead of labels or tags, the name and address of the *consignee*—the one to whom the shipment is directed (usually the customer)—may be printed on the box or crate by placing a stencil on it and inking it with a stencil brush. If the firm that sent in the order wants



Courtesy American Furniture Mart, Chicago

Trucks can back up to this saw-toothed loading platform with only slight cutting of the wheels. It is then practically a straight pull to the exit.

the shipment sent directly to one of its own customers, it is called a *drop shipment*.

The marking should also include the weight and sometimes the contents and name of the carrier, as well as the purchase order number and any other information requested by the customer. The carriage charges also are marked on parcel post and express packages.

SHIPPING PAPERS

The next step is to make out the shipping papers, which are primarily a receipt from the carrier that states the terms on which the carrier agrees to transport the goods. These terms usually are set forth in fine print, which does not affect their validity.

If a shipment is by rail, motor or air freight, a bill of lading is

made out. This is really a contract between the shipper and the transportation company, in which the transportation company agrees to convey the goods described, subject to certain rules and conditions. It also serves as a receipt for the shipment. Three copies are made, the original usually being sent to the customer as notice that the goods have been shipped, and as his authority to get the goods from the transportation company. The second copy, called the *shipper's order*, is retained by the freight agent. The third, called the *memorandum bill of lading*, is filed by the shipper.

Some concerns save time in making out bills of lading by having the names of the products that they ship regularly already printed on the forms; any items not included in a particular shipment can be crossed out.

If a shipment is by express, an express receipt is made out, describing the goods shipped. This is signed by the expressman when he calls for the package. Often, express receipt blanks are bound in books and kept in the shipping room for reference, should occasion arise.

If delivery is to be made locally by motor truck, or if the customer's truck is to call for the goods, no bill of lading or express receipt is necessary. Instead, a delivery receipt, sometimes called a *driver's receipt*, is made out for the customer's receiving clerk or truck driver to sign. If a copy of the sales order is used for this purpose, much writing can be saved.

Has Credit Been O.K.'d? If the sales order bears the O.K. of the credit department, there is nothing to prevent the goods from being shipped. If the O.K. of the credit department has not yet been received, the shipping room must hold the goods until the credit department either releases them or orders them back into stock. If the goods are ordered back into stock, the shipping clerk sends the package to the receiving room, which unpacks the goods and returns them to the stock room, handling them in the same manner as any other incoming shipment.

DELIVERY TO THE CARRIER

If it is O.K. to ship, the next step is to notify the carrier to pick up the shipment or to deliver it to the railroad, or to take the packages to the post office.

STRAIGHT BILL OF LADING - SHORT FORM - THIS MEMORANDUM

is an acknowledgement that a Bill of Lading has been issued and
the Original Bill of Lading has a copy or duplicate covering the
property named herein and is intended only for filing or record.

Shipped a/c

Name of Carrier

RECEIVED subject to the regulations and to R. in eff. 1. the day of the year 19

Carrier's No.

A1

19

From **GENERAL FOODS CORPORATION**

Consignee to

(Name & street address of consignee - purpose of notification only)

State

County

Delivery Address*

Route

Delivering Carrier

(*To be filled in only when shipper desires and governing tariffs provide for delivery thereof.)

Car or Vehicle Initials

No.

No. of Piece	Code	A. M. P. or Grade, Type and A. P. Name of Manufacturer		AMT	HT	N. R. R.	C. O.
		EX CAR NO	ORIGIN				
7010 R	24/1	Maxwell House Coffee Tin	Reg				
7010 D		Drip	{ Roasted Coffee				
7010 P		Pulv					
7020 R	12/2	Maxwell House Coffee Tin	Reg				
7020 D		Drip	{ Roasted Coffee				
7050	24/1	Maxwell House Coffee Bag	WHOLE BEAN				
			{ Roasted Coffee				
7055 R	12/1	Maxwell House Coffee Bag	Reg				
7055 D		Drip	{ Roasted Coffee				
7300 R	24/1	Bliss Coffee	Tin	Reg			
7300 D		Drip	{ Roasted Coffee				
7940	24/2oz	Instant Maxwell House Col. Glass					
7942	12/2oz						
7960	12/6oz						
7960	12/6oz						
9000 R	12/1	Sanka Coffee	Tin	Reg			
9000 D		Drip	{ Roasted Coffee				
9050	12/2	Instant Sanka Coffee Glass		Carbo Extract			
9100 R	12/1	Kaffee Hag Coffee	Tin	Reg			
9100 D		Drip	{ Roasted Coffee				
9200 R	12/1	Yuban Coffee	Tin	Reg			
9200 D		Drip	{ Roasted Coffee				
9200 P		Pulv					

If the shipment exceeds two pieces by a carrier by rail the shipper is to state whether I am to receive or not the cost of loading and unloading.

NOTE—Where the rate is dependent on value shippers are required to state specifically in writing the agreed or declared value of the property.

Value is to be indicated by the shipper to be not exceeding _____ per

GENERAL FOODS CORPORATION, SHIPPER, Per. Agent

Permanent post office address of shipper _____ Per _____

Y 844 E 3 BO

Courtesy of General Foods Corporation

By printing its products on the bill of lading, this concern saves the time of writing them in for each shipment.

Railroad Freight. In some places, the railroads have pickup service; they will call for the shipment. In most places, however, freight shipments must be taken to the freight house by truck or local expressman, unless there is a spur track by which the railroad can place cars right at the shipping platform so that freight can be loaded directly into the cars. The railroads make a charge for *spotting* cars, as this placing is called.

Use Full Freight Car Capacity

To make the most efficient use of car capacity, all shippers and receivers of freight should keep daily check of their operations to see that the following plan is carried out in so far as it is possible.

1. Give advance notice of requirements, but do not order cars placed for loading until commodities are ready to load.
2. Unload cars promptly on arrival, and notify railroad when the empty car is available.
3. Load cars to maximum journal carrying capacity or full visible capacity, whichever governs.
4. Remove all dunnage, blocking, and rubbish from cars after unloading, to permit immediate reuse and to eliminate necessity of delay to cars for reconditioning.
5. In industries where a 5-day work week is in effect, some plan should be worked out to provide at least a 6-day basis for loading and unloading cars.

(Courtesy Association of American Railroads)

If a car is not released within a certain time, an additional charge, called *demurrage*, is made for each day that the car is held by the shipper beyond a certain time allowed for loading or unloading. It is intended to discourage the practice of some shippers of holding empty cars not immediately needed, in the belief, often justified, that a car might not be available when needed. Such charges can be lessened or avoided by promptly loading or unloading the car and releasing it to the railroad within the free time allowed.

Parcel Post Shipments. Parcel post shipments must be delivered to the post office, since the Postal Laws and Regulations require

parcels of fourth-class matter (parcel post) to be mailed at a post office, at a branch post office, at a named, numbered, or lettered station, or delivered to a rural or other carrier duly authorized to receive such matter. Large mail-order houses and other concerns with large daily mailings can arrange with the postal authorities for the establishment on the firm's premises of a postal station, in which only bonded postal employees may work. Delivery to this station complies with the postal laws.

Motor Carriers. The express company will pick up shipments to go by express, as will motor freight carriers. Where shipments are made regularly, the motor carrier or express company will call at the shipping room at a stated time every day. A shipping routine can be planned so that daily shipments are ready for the driver when he calls.

Notification of Shipment. As soon as a shipment has been delivered to the carrier, the shipping clerk notifies the sales department, which then notifies the customer. This notification of shipment may be a bill of lading, an invoice, or a special copy of the sales order. Sometimes, a letter or postal card is sent, and in urgent cases a telegram so that the customer may know his goods are on the way.

If the goods arrive safely at their destination, the traffic department has no further responsibility. But any one or more of a number of things may happen.

FIXING RESPONSIBILITY FOR LOSS OR DAMAGE

The goods may arrive at their destination in a damaged condition. The carrier is absolutely responsible for the safety of goods while they are in transit—that is, while the carrier has possession of them for purposes of transportation. The carrier's agent should note the damage, as described above under the work of the receiving clerk, whose responsibility it is to see that the damage is noted by the agent and that a claim is filed.

Sometimes, a shipment is completely lost and never turns up. In such cases, the shipper's traffic department asks the carrier to prove delivery to the customer. Unless the carrier can prove delivery (usually by a receipt signed by the consignee or his receiving clerk), the carrier is responsible for the price of the goods and must pay for them. The carrier is also responsible for any partial

loss. Of course, the shipper must prove that he made the shipment and must prove what the shipment contained.

The bill of lading or express receipt is sufficient proof of shipment, and a certified copy of the invoice is proof of the contents. A comparison of the weight when shipped with the weight when received by the consignee will often show up any discrepancy, since a decrease in weight would indicate that a shortage occurred while the carrier had the shipment.

FILING THE CLAIM

When shipments are lost or damaged, the traffic department presents to the carrier a claim for the loss or damage: this is called *filing the claim*. A standard form, approved by the Interstate Commerce Commission, is used for presenting claims. This form (see page 381) must be carefully filled out and accompanied by *supporting papers*, which support the claim by proving evidence of shipment and the loss or damage. They are listed on the form.

Since the law requires that claims be presented within a certain time, it is important for the traffic department to get together as soon as possible all the evidence required to support the claim.

FOLLOWING UP CLAIMS

A follow-up card index covering claims against the transportation companies is often maintained. A card for each claim is made out and filed alphabetically under the consignee's name. Each card bears the same number as the original order, and correspondence about the claim is filed under that number. The correspondence may be filed chronologically with information as to its location on the card, or adjustable signals may be used on the card to show the date when the claim should come up for attention again. The transportation companies are sometimes slow about settling claims, and unless they are followed up, claims may be sidetracked.

TRACING DELAYED SHIPMENTS

Instead of being damaged, the shipment may be delayed. The traffic department first learns of the delay when the anxious customer writes, wires, or telephones to ask about his order. The tracing clerk in the traffic department gets out the file copy of the

900m 3-45 © 20-450
Printed in U S A

NYC
FESTA

NEW YORK CENTRAL SYSTEM

Standard Form for Presentation of Loss and Damage Claims

APPROVED BY THE INTERSTATE COMMERCE COMMISSION, FREIGHT CLAIM DIVISION, ASSOCIATION OF AMERICAN RAILROADS; NATIONAL INDUSTRIAL TRAFFIC LEAGUE, AND THE NATIONAL ASSOCIATION OF RAILWAY COMMISSIONERS.

(Name of person to whom claim is presented)	(Date)	(Claimant's Number)
(Name of carrier)	(Street Address of claimant)	(Carrier's Number)
(Address)	(City and State)	
This claim for \$ _____ is made against the carrier named above by _____ (Amount of claim) (Name of claimant) for _____ in connection with the following described shipments (Loss or damage)		
Description of shipment		
Name and address of consignor (shipper)		
Shipped from _____ (City, town or state etc.)	To _____ (City, town or state etc.)	
Final Destination _____ (City, town or state etc.)	Routed via _____ (City, town or state etc.)	
Bill of Lading issued by _____ (City, town or state etc.)	Co., Date of Bill of Lading _____	
Paid Freight Bill (Pro Number) _____	Original Car Number and Initial _____	
Name and address of consignee (Whom shipped to)		
If shipment recognized enroute, state particulars		
DETAILED STATEMENT SHOWING HOW, AMOUNT CLAIMED IS DETERMINED. (Number and description of articles, nature and extent of loss or damage, invoice price of articles, amount of claim, etc.)		
Total Amount Claimed _____		

**IN ADDITION TO THE INFORMATION GIVEN ABOVE, THE FOLLOWING DOCUMENTS
ARE SUBMITTED IN SUPPORT OF THIS CLAIM ***

() 1 Original bill of lading if not previously surrendered to carrier
() 2 Original paid freight ("expenses") bill
() 3 Original invoice or certified copy
() 4 Other particulars obtainable in proof of loss or damage claimed

Remarks.

The foregoing statement of facts is hereby certified to as correct.

(Signature of claimant)

IChairman should search each file, a section, covering same in the space provided at the upper right-hand corner of this form. Reference should be made thereto in all correspondence pertaining to this case.

Claimant will place a check mark in the box above the word "Comments" if he has been contacted, and explain under "Comments" the absence of any claim or if he has filed a claim. If he has filed a claim, he should indicate the date of filing. If any claim is filed, it is recommended for claimant to provide original bill of lading, if required, or freight bill, claimant should indemnify carrier or carrier against any damage claim supported by original documents.

The time to get the detailed information required for the presentation of a claim to the carrier is immediately at the time that the loss or damage is discovered.

bill of lading, and telephones or writes to the railroad freight agent, if it was a rail shipment, to find where the shipment went from his station. Then he calls the freight agent at that point and asks him the same question.

This procedure is kept up until an agent on the route is found who should have received the shipment, but has not. The shipment must be between that point and the point from which it was last forwarded. The tracing clerk now asks the railroad company to locate the freight car containing the shipment and speed it on its way, and to notify him when they have done so. In some cases, the tracer himself goes to the point where the car might be, locates it, and personally asks the railroad to move the car again.

<i>Please Trace Car No</i>	<i>Initials</i>	-
<i>Shipped from</i>	<i>Date</i>	-
<i>Consigned to</i>		
<i>Via</i>	"	-
<i>New York,</i>	19	
<small>G A A Co — f j0— "M</small>		

Courtesy New York Central System

This form is used in requesting the railroad to trace a shipment, that is, to find out where the shipment is.

It is not necessary for the tracing clerk himself to check station by station. The railroad will do it if he asks the railroad freight agent to trace the shipment. But the railroad has several hundred other customers, who must be waited on in turn. The customer wants his goods, and the seller is more interested than anyone else in seeing that he gets them. If the customer has a traffic department, he probably will do his own tracing.

Legally, there is no obligation to trace outbound shipments when they are delayed, that is wholly between the customer and the transportation company. But many small concerns do not have traffic departments, consequently, the seller renders this service to create good will.

Don't Do This. Some concerns make the mistake of asking the carrier to trace every shipment, under the impression that doing so will hasten delivery. The carriers soon cease to pay attention to such tracers, and the shipper finds it difficult to get attention and service when a serious delay occurs. A reasonable time for delivery should be allowed to elapse before the carrier is asked to trace a shipment.

AUDITING TRANSPORTATION BILLS

Another important task of the traffic department is that of auditing or checking the bills of the transportation companies, especially freight bills. This work involves seeing (1) that the quantities are right, (2) that the weights are correct, (3) that the routing is the proper one, (4) that the classification is the right one, (5) that the correct rate is applied, (6) that the extensions are correctly figured, and (7) that the footings are accurate. Any discrepancies are taken up with the carrier for adjustment, using the printed form especially designed for this purpose.

In large traffic departments, one or more clerks may spend their entire time auditing freight bills. Sometimes, associations of manufacturers provide this auditing service for their members, who send their freight bills to the association office. A nominal charge is made for this work, which saves thousands of dollars annually to the members of the association.

A SPECIAL SERVICE

The officers, department heads, salesmen, and sometimes other employees of a concern travel more or less, by train, airplane, or steamship. If a concern has a traffic manager, he usually is asked to arrange for such transportation. A decision to take a fast train or plane sometimes is made at the last moment, and the traffic department reserves accommodations, pays for them, and has them at the station ready for the passenger. A good traffic manager often can reserve accommodations that otherwise might be difficult to get at the last minute.

QUESTIONS FOR REVIEW AND DISCUSSION

1. What is the traffic department responsible for with respect to both incoming and outgoing shipments?
2. What other duties has the traffic department?

3. Explain the work of the shipping clerk and of the receiving clerk as related to the traffic function in different business concerns.
4. Describe the organization of the traffic department.
5. Why should the traffic manager be an expert on traffic matters?
6. Why is the Interstate Commerce Commission concerned with traffic matters?
7. Describe the work of the traffic department with respect to incoming shipments.
8. In what ways may deliveries be made?
9. Who designates the route for incoming shipments? Why? Explain.
10. What is meant by "ship the best way"? When should goods be so shipped?
11. What is the procedure when a shipment arrives at the receiving room?
12. If the receiving clerk finds that part of the shipment is missing or that there are signs of damage, what does he do?
13. What is meant by a shortage?
14. Who designates the route by which customers' orders are shipped? Comment.
15. Explain classification and why it is important.
16. What are commodity rates, and why are they important?
17. What are tariffs? Comment.
18. What three points should be observed with respect to tariffs? Why?
19. What can be done to avoid consulting tariff schedules every time a shipment is made to regular customers?
20. Why is proper packing important? What is meant by proper packing?
21. Why is proper packing a responsibility of the traffic department?
22. What is a packing slip? How is it made out, and what does it show? How is it used?
23. Should shipments be weighed twice? Where, and why?
24. Describe the procedure when marking a shipment.
25. Describe a bill of lading, stating what it is, what it shows, its purpose, its use, the number of copies, and what is done with each copy.
26. What papers are made out for an express shipment? For a shipment by motor truck?
27. When a shipment is ready, what may hold it up?
28. What is a spur track, and what is meant by spotting a freight car?
29. What are demurrage charges? How may they be lessened or avoided?

30. Is the carrier responsible for the safe transportation of all goods entrusted to his care? Why or why not?
31. What should the shipper do when a shipment is totally lost?
32. How are claims for loss or damage filed? What is the meaning of the word "filed" as used here?
33. What are supporting papers? Why are they necessary?
34. Why is it necessary to follow up claims? Describe a method for this purpose.
35. Explain the method of tracing shipments. Who does the tracing? Why?
36. Should all shipments be traced? Why or why not?
37. What is meant by auditing transportation bills? Who audits them? Why is it necessary?

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees.

1. Ask the manager of the traffic department of some business concern in your community to explain the work of his department.
2. Visit the receiving departments of three concerns in your community, and find out how shipments are received. Ask for a copy of the sheet or card on which the receipt of shipments is recorded. If one of the concerns does not keep such a record, find out why.
3. From a traffic department or from a railroad freight agent, obtain a copy of the classification of products for freight shipment, and make a report to the class on interesting facts that you discover about classification.
4. Ask a traffic manager, a rate clerk, or a freight agent to explain commodity rates, and how they are made.
5. If there is a mail-order house in your community, ask permission to visit the packing room.
6. From the local freight agent, inquire about demurrage charges.
7. Ask a traffic manager to explain his claim-file system and the procedure of an actual claim.
8. Ask a traffic manager to explain how a freight bill is audited.
9. Make a list of not more than ten motor trucking concerns in your community, showing what they haul, between what points they travel, and their rates.
10. Talk with the postmaster or a parcel post clerk about parcel post shipments and express shipments to get his point of view. Then discuss both kinds of shipments with an expressman. Write a

report on the advantages or disadvantages of shipping by parcel post or by express.

PROBLEMS

1. Consult a map, and select twenty-five cities at least one hundred miles distant from your community. On index cards, or paper cut that size, write the name of each city and the various ways by which merchandise can be shipped there from your community. Give the name of each carrier and his schedule of delivery to each city. If a carrier calls for shipments, give his telephone number and how soon a shipment is picked up after notification to call.
2. Prepare a parcel post rate sheet, showing the rates from your community to forty-eight other cities, one in each state. If the rate sheet is prepared properly, you can reckon from it the postage required on a parcel of any weight.
3. Devise a system for following up claims filed with carriers. Use a 4-by-6-inch card, show the information you would put on the card, and explain how the system would work.
4. In a certain community, there are two trucking concerns, one reliable and one not so reliable. Every afternoon, the more reliable concern picks up outgoing shipments and loads them on the five o'clock freight, but lately has been giving poor service. The trucks arrive too late to make the train, and there is no other until the next morning. The reputation of the other trucking company for promptness is not too good. What should the traffic manager do? Give your reasons.
5. In a traffic department that has control and supervision over both shipping and receiving, rising costs have forced the department to hire only one labor gang to load and unload supplies. Incoming and outgoing freight occur at about the same time each day. Shipping is just as important as receiving. How can the department alleviate the double strain on the men? Give your reasons.
6. A large department store offers free delivery to customers. Its trucks are old, and the store is faced with the problem of replacing them. Should the management buy new trucks or hire the services of a trucking firm that makes such deliveries? Give your reasons.
7. Is it better for a community grocery store to hire two or three delivery boys than to operate a motor truck for deliveries? Give your reasons.
8. A drugstore has decided to have a delivery system. What kind of delivery vehicle shall be used? Give your reasons.

CHAPTER XVIII

Organization for Production (Manufacturing)

Production, or manufacturing, as it is usually called, is concerned with making things. Although the word "manufacture" means "making by hand," very few articles are made solely by hand. Some tools are necessary for even the simplest type of manufacture. There are hand tools and machine tools. The chisel is a hand tool; the lathe is a machine tool. Many hand tools have their counterparts in the machine tools—for example, a handsaw and a band saw, a sledge hammer and a trip hammer or a pneumatic hammer, a pickax and a pneumatic pick.

A lathe is a device for holding the material to be worked on. On the simplest type of lathe, the material is revolved while a hand tool—a modified chisel—is held against the material to remove part of it and attain the desired shape. From the simple lathe, there have been developed some marvelous machine tools for performing intricate operations and combinations of operations in a relatively short time and at incredible speed.

In addition to tools, various types of equipment often are necessary, depending on the nature of the manufacturing process. In some industries, large tanks or vats are used for mixing chemicals or curing materials. Conveyors of various types may be needed to move material from one part of a plant to another. Such are pipes, chutes, elevators, and gravity or mechanical conveyors.

ASSEMBLING INDUSTRIES

Manufacturing industries sometimes are divided into two main types: assembling and continuous. An *assembling industry* as-

sembles parts into a complete product; such are the automobile and airplane industries. Essentially, an automobile is a frame on which are mounted the engine, the gas tank, and the body; the frame rolls on wheels. An automobile assembly line starts with nothing but the frame. As the frame travels along on a slowly moving conveyer, the other parts are added to it in order: the gas tank, the motor, the radiator, the wheels, the body. At the



Courtesy General Motors Corporation

The start of an automobile assembly line, beginning with the frame, to which other parts are added as the conveyer slowly carries it along.

end of the assembly line, a worker steps into the car, starts the motor, and drives the car off under its own power.

So well synchronized are the various operations on an assembly line that the Ford Motor Company can turn out more than 7,000 Ford cars a day, which is at the rate of one every 12 seconds. This does not mean that on one assembly line a finished car rolls off every 12 seconds; there are several assembly lines. On 7 assembly lines, 7,000 cars a day would mean 1,000 cars on each, or approximately one car every 15 minutes on each line.

Synchronizing. To attain this seemingly incredible output, careful planning is necessary. For example, before a motor can be placed on the car frame, the motor itself must be assembled. This series of operations is called a *subassembly*. And there are parts of

the motor which themselves have to be assembled before they can be attached to the motor, such as the timing apparatus, the generator and charger, and the air filter. The problem in an assembling industry is to arrange the subassembly lines so that each part



Courtesy General Motors Corporation

At the other end of the assembly line, the finished cars roll off, one by one, ready to drive off. These men are giving the final inspection.

is ready to attach to the larger part at the precise moment that the larger part is ready for it. This is called *synchronizing*. The failure of one part to be ready at the required time may cause an expensive delay all along the line.

Objects of Planning and Scheduling

1. To overlook no necessary details.
2. To arrange details in proper sequence.
3. To have concurrent steps meet at proper points and at stated times.

Not all assembling industries are so well coordinated and synchronized as the automobile industry.

Other Assembling Industries. The manufacture of ready-made clothing is an assembling industry. Fabrics, thread, buttons must be brought together to make a complete garment, which starts

with several layers of cloth, cut by electric knives according to a pattern, and then assembled by skilled tailors into a garment, each tailor specializing on some part and passing his finished work on to the next specialist to do his part.

Typewriter and furniture manufacturing are other kinds of assembling industries. Parts of the machine or table are fabricated and then assembled.

CONTINUOUS MANUFACTURING

A *continuous industry* either takes raw materials and breaks them down into other materials, which is called *analytical manufacturing*, or puts raw materials together to form other products, which is called *synthetic manufacturing*.

Analytical Manufacturing. The oil-refining and the packing industries are good examples of analytical manufacturing. Crude petroleum is broken down by the refining process into a great number of products, among which are gasoline and petroleum jelly. The packing plant slaughters animals and, in addition to the familiar meat cuts for eating, recovers some three hundred other products with medicinal value, such as insulin, liver extract, and adrenalin.

Synthetic Manufacturing. The soap and steel industries are good illustrations of synthetic manufacturing. To various oils or fats are added certain chemicals that product the well-known soaps and soap powders. To iron is added carbon or other metals to form different kinds of steels for many purposes, varying in hardness, ductility, rust resistance, and so forth, according to the use to which the steel is to be put.

Printing usually is classed as synthetic manufacturing, although the raw materials of the industry are all finished products of other industries. In letterpress printing, for example, type is set to form words and sentences. Locked in a frame and placed in a press, the type is inked, and a sheet of paper pressed against it, forming an impression of the inked type. The type is then disassembled ("distributed" is the correct technical word) and used again and again in setting up other jobs. There are many other kinds of printing besides letterpress. One of the commonest is offset printing, in which the impression of the type or plate is made on a rubber

roller, which in turn transfers the impression to a sheet of paper, producing the lithograph-like smooth surface. Letterpress printing often shows where the type has been pressed *into* the paper, instead of *against* it.

Now that we have examined various types of manufacture sufficiently to distinguish among them, we can disregard the differences and, for our purposes, proceed to examine those elements of manufacturing, which are in many respects essentially the same for all manufacturing industries, namely, the processing of materials by the application to them of labor, machines, equipment, and, in some cases, chemicals as well as, of course, heat.

MANUFACTURING TO ORDER OR FOR STOCK?

There is one other difference that should perhaps be noted, since it affects to some degree the problems of production. Some concerns only *manufacture to order*—that is, they wait until they receive the order before proceeding to make the product. Other concerns *manufacture for stock*—that is, they make the product and store it in anticipation of demand. Concerns that manufacture for stock do so in order to be in a position to fill orders immediately, thereby giving prompt service to customers. Concerns that manufacture to order prefer not to take the risk of not being able to sell what they have made.

Manufacturing for stock sometimes causes embarrassment since, if the estimate of the quantity to be manufactured is too high, more stock will be carried than can be readily disposed of, resulting in abnormally high inventories and slower turnover of stock, with possible consequent deterioration or at least depreciation in value. On the other hand, if the estimate is too low, the stock runs out before a new supply can be made up, causing delays in filling customers' orders.

Manufacturing to order likewise means that the customer has to wait while the goods are being made up, whereas if the goods are in stock, he might get them immediately. There are advantages and disadvantages to both plans. Customers do not like to wait; nor do they like shelfworn stock. The nature and value of the manufactured goods also have some bearing on the choice of making to order or for stock.

BALANCING SALES AGAINST INVENTORY REQUIRES SKILL

It is obvious that manufacturing is something more than simply buying materials at the lowest possible price, hiring labor to do the work at the lowest possible wages, making up the goods in the cheapest way, and selling them at the highest price obtainable, as some people seem to think.

Careful planning is necessary if a concern is to remain in business and provide continuing employment for its employees. A nice balancing of sales against inventory control and production control is necessary for the most favorable results. Since estimates sometimes take the place of facts, the estimate may turn out to be what one wit has called a "guesstimate." There is enough skill involved in the successful administration of a manufacturing enterprise to warrant the application of the best brains available.

REQUIREMENTS OF DESIGN

The manufacture of any article involves design, materials, and processing. The design may be standard, static, and unchanging, as in some articles of staple merchandise; or it may be variable and subject to change overnight, as in some lines of style merchandise.

Consumer Acceptance. The design of an article must meet at least four obvious requirements. First, it must have what is called "consumer acceptance"; that is, it must appeal to the consumer's taste or desires. A shoe manufacturer, for example, who would manufacture women's high shoes, such as nearly all women once wore, would find no sale for his product. No woman today will wear high shoes except for sports or because her physician has prescribed them—and some women will not wear them even then. The manufacturer of women's shoes also faces another problem—the changing of styles so fast that production for stock is well-nigh impossible. The same is not so true of men's shoes, since most men stick to the same last year after year.

Utility. The second requirement of design is that the product shall adequately serve the purpose for which it is intended. A beautifully designed and attractive chair may not be strong

enough to serve as a chair for day-to-day use. Not too many families can afford purely decorative furniture, especially where there are lively children. Utility in an article designed for utilitarian purposes must not be neglected.

Economic Processing. The third requirement of design is non-interference with economical manufacturing processes—that is, the cost of making the product must not be so great that it cannot be sold in a competitive market at a price that will return the cost and a fair margin. If the design slows down the process of manufacture, redesign is called for, unless the market for the product is limited.

The design of glass bottles is a case in point. As long as bottles were filled by hand, their shape was not too important; the fancies of the designer might be given unlimited rein, as borne out by some of the fantastic shapes of early bottles. When bottles came to be filled and capped by fast-moving machines, consideration had to be given to the structural aspect of their design so as to lessen breakage. That is one reason why milk bottles are so sturdy, why certain widely marketed proprietary remedies are put up in plain bottles. Even the universally marketed Coca-Cola bottle, although of a distinctive shape, nevertheless is strongly built for filling and capping on fast-moving bottling machines.

Consistent with Material to Be Used. The fourth requirement of design is that it must suit the material of which the article is to be made. Materials must be “worked” to produce the design wanted. Some materials are more workable than others. Some processes can be used with some materials and not with others. Today, the choice of materials is almost unlimited. At one time, choice was virtually confined to gold, silver, nickel, copper, stone, flax, hair, skins. Now there are different grades of iron, a remarkably large number of steels and steel alloys, cotton, jute, leathers, aluminum and aluminum alloys, magnesium, titanium, chromium, soybean products, spun glass, plastics, synthetic paints, enamels, and lacquers, and so on through a long list of items that were hardly imagined fifty years ago. For that matter, the availability of new materials in the years following 1920 has made possible certain designs, and manufacturing processes in creating products in those designs, that were a problem to manufacturers hitherto.

There are definite limitations to the use of iron, for example; its brittleness indicates little strength in delicate designs. Steel is an improvement over iron, especially in recent years, with the development of special steel alloys. Iron has to be forged or cast; steel may be forged, cast, or drawn. Steel also may be stamped, an almost impossible process with iron. But both steel and iron are subject to rust and require some protective coating as a preservative, except in stainless steels. Steel and iron are also heavy.

Aluminum may be cast, forged, drawn, or stamped; it requires no protective coating. Paints made from aluminum are themselves used as protective coverings for iron and steel. Aluminum is one-third as heavy as iron.

Copper is also impervious to corrosion, except under long exposure to certain acid fumes. It is more ductile than any other common metal, thus explaining its universal use in electrical wiring, although some aluminum wiring has been developed. Copper also may be stamped easily. It is an easily workable metal, and for certain types of products seems to have no peer. Alloyed with zinc to form brass, copper takes on properties that are highly desirable. Alloyed with tin to form bronze, it is used in imperishable monuments and statues.

A beryllium copper alloy, used in coil and flat springs, resists deformation. Forthcoming uses of magnesium, a metal similar to aluminum, but much lighter, and of titanium, a highly useful, strong, and tough metal, only recently separated in quantity from its widely distributed ores, will be interesting to watch.

The development of turbo superchargers, jet engines, and gas turbines has been expedited by the production of about a dozen new superalloys containing high percentages of chromium, nickel, and cobalt, and smaller percentages of tungsten, molybdenum, columbium, and titanium.

The plastics have introduced new possibilities into the manufacturing of articles whose designs lend themselves to molding. Some of the plastics have great strength, being virtually unbreakable; in addition, they are impervious to acids, weather, corrosion, and similar deterioration. Combinations of plastic materials result in beautiful finishes, and there is even a plastic house paint, said to be impervious to sun and rain.

CHOICE OF MATERIALS

The discussion of the fourth requirement of design has included most of the second factor involved in the manufacture of any article—materials. In addition to what has already been said, the choice of materials depends on (1) the purpose of the article to be manufactured, (2) the comparative cost and availability of various materials that may be used, and (3) the relative cost and availability of processes for working those materials.

Utility or Decoration. Articles may have either a utilitarian purpose or a decorative one—sometimes both. An ornament probably has little utility. Its purpose is to decorate something, such as a Christmas tree, a garment, a mantel, a desk, a wall, a house. Some decorative articles are intended for temporary purposes only, in which case their durability is of secondary consideration; the main considerations are cheapness of material and inexpensive methods of manufacture.

Durability. Articles with a utilitarian purpose, on the other hand, should be made with some consideration for their durability. Choice of durable material is desirable, and yet an economical manufacturing process is also desirable in order to keep the cost down. Until consumers have been educated to distinguish between good-quality and poor-quality goods, however, there will continue to be produced supposedly durable items that do not last and were not made to last, despite their appearance of possessing that quality.

Stove bolts, nails, and some other items of hardware are available in durable and nondurable materials. Since the superficial appearance of both is much the same, the ordinary consumer usually buys that which is priced lower. He does not know the difference in value; and in many cases, it must be admitted that he does not greatly care. Perhaps, there are too many consumers who feel that life on this planet is so uncertain and impermanent that it is not worth while to live other than from day to day. "Here today and gone tomorrow" is their defense for doing things that have no justification from a long-time view. As long as such a market exists, there are those who will supply it. When a man buys a razor blade at a low price, there is some question as to

whether he is buying a bargain or a shave; often he gets neither.

On the other hand, there are consumers who believe that anything worth doing is worth doing well. They want and demand durable goods, not shoddy. When such a buyer purchases nails, he expects to get value for his money. When he buys house paint, he does not want to get what one manufacturer called "applesauce." But as long as a market for poor-quality goods exists, it probably will be supplied.

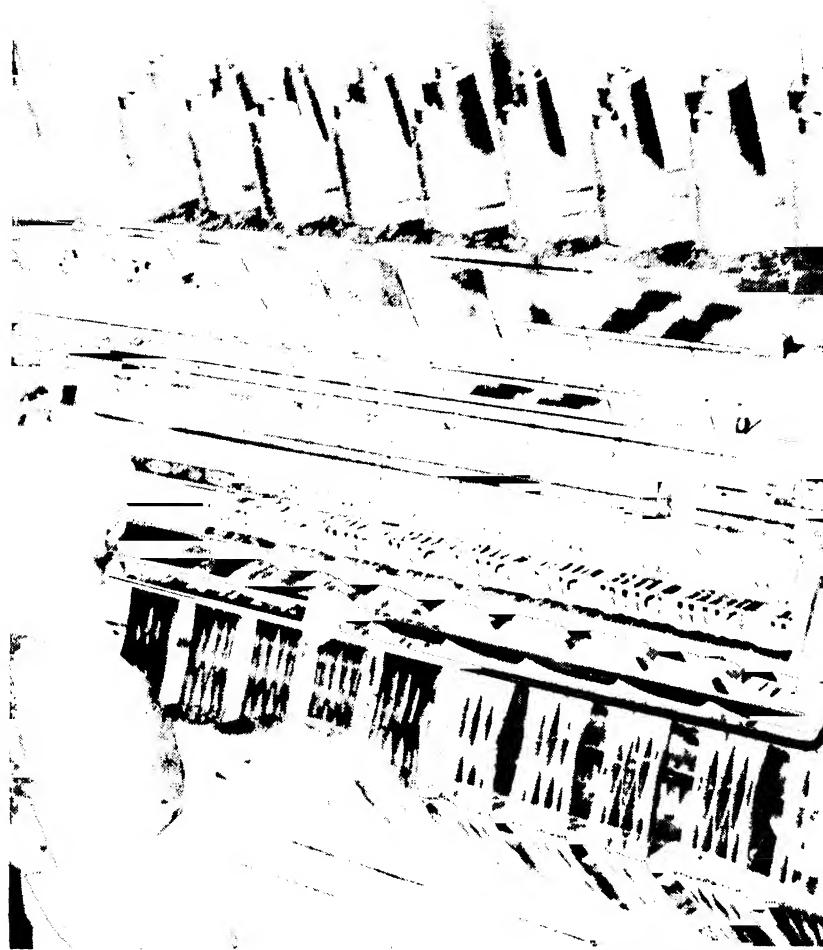
PROCESSING REQUIRES MACHINERY AND LABOR

The third and last factor involved in manufacturing is processing. This requires machinery and labor, although the proportion of each is seldom the same in the manufacture of two different products. The manufacture of safety razor blades, for example, uses highly automatic machines, several of which may be tended by one person. Other processes may require two or more attendants to a machine, as with a huge stamping machine.

Trend to Automaticity. The tendency in machine design is to make machines more automatic in their operation, so that less labor is required. In operating the early job printing presses, the press feeder had to kick the foot treadle to keep the press running, while his right hand took a sheet of paper off a pile and placed it in the press, and his left hand took the printed sheet out of the press. He was also on the alert to manipulate the throw-off lever in case a sheet of paper was fed crooked. In those days, the capacity of the press was limited, as one manufacturer advertised, "only by the expertness of the operator"!

Contrast this picture with that of the modern job printing press, which is run by an electric motor and fed automatically by a suction hose that lifts one sheet of paper from a pile several feet high and places it with precision in exactly the correct place for printing. One person can tend a number of such machines, occasionally replenishing the supply of paper and ink, but for the most part just standing by and watching.

Even with machine tools, automaticity is an increasing factor. Automatic screw machines will take a rod of metal and, once set and started, will perform a number of consecutive operations automatically, until the rod is entirely used up. A certain make of



Courtesy du Pont Company

Skeins of rayon being laced by automatic machine.

huge lathe has eight spindles; while the operator is setting one, the other seven are working. The trend is definitely toward more and more automaticity.

Advantages of Automaticity. It is obvious that the more automatic an operation, the less labor is required and, consequently, the less costly it will be. Since the cost of manufacturing affects the price at which a product can be sold, it is possible for one manufacturer of similar products to outdistance his competitors in the same field, if he can cut costs and charge a lower price for

the same quality. A lower price brings the article within reach of more purchasers and thus opens up a wider market.

EFFICIENCY OF LABOR

The efficiency of labor also has a marked effect on price and market. When Henry Ford, in 1914, set a \$5-a-day minimum wage for all his workers, he took a step that assured him the pick of the mechanical skill in the country. When in 1940, James F. Lincoln paid each of his employees a minimum of \$5,000, he was able to cut his manufacturing costs to a fifth of those of his nearest competitor. In 1950, the total annual earnings of an average Lincoln worker amounted to \$6,748.

It should be clearly understood, however, that to pay an incompetent worker a high wage will not necessarily increase his efficiency. To pay a lazy workman a high wage may encourage him to lay off and loaf after he has earned a little extra money. High wages are an incentive, but they do not take the place of careful selection of employees and their thorough training and adequate supervision, without which high wages may be just a waste of money. It is not the amount of pay that matters so much as what is received in return for a good wage. Nor will high production and low costs result from low wages; incentive is lacking. Of course, the terms "high" and "low" are relative, and should be considered with respect to the cost of living, the standard prevailing in the local community, the legal requirements, the level of payment for comparable work, and similar factors.

CONTINUED OPERATION DESIRABLE

With effective machines and equipment and with efficient employees, the successful manufacturer realizes that his remaining in business is dependent on his ability to continue to make what the market wants at a price it is willing to pay. Costs of material and labor affect the price, but so does idleness. The overhead cost of an expensive machine goes on whether or not the machine is operated. Consequently, a manufacturer tries to keep his machines in operation. This involves careful scheduling of operations, orders, and materials. The ideal, approached by the Ford Motor Company, is to have materials arrive at the plant just in time to be processed, without being stored.

Storing uses space and requires rehandling. Yet a stock pile of materials is often necessary to keep machinery running, lest a delay in the arrival of needed items cause a shutdown. A stock pile is merely a reserve of materials in quantity sufficient to keep production going for a reasonable time in the event of a stoppage in the flow of material into the plant. It is not intended that it should be drawn on for current production, but only in emergencies. Obviously, then, stock piling involves problems of material control, storage, and handling. But it is good insurance.

AYOUT INFLUENCES PRODUCTION

The most important factor determining layout—that is, the arrangement of machines and equipment in any kind of work—should be the sequence of operations. Two general plans are used. One is the *straight-line production plan*, usually exempli-

A schedule is made up of two fundamental elements.

1. A series of events in a prescribed order of sequence
2. A list of times at which each event is to occur

fied by the movement of work from one machine to the next in line, one operation being performed at each machine. The other is the *production center plan*, whereby several operations are performed by a related group of machines, after which the work moves to the next center.

Sometimes, other factors influence what otherwise seems an ideal arrangement. Some of these factors are the size and shape of the space available, accessibility, convenience, transportation facilities for moving materials, light and power facilities, and the like. Sometimes, these influences can be wholly or partly overcome; sometimes, they are apparently insurmountable, especially if to correct them requires the outlay of money that is not available.

MAINTAINING A STEADY FLOW OF PRODUCTION

The number of machines needed to perform the various operations depends on the volume of orders going through and on the capacity of each machine used. A large volume of orders makes

possible a more steady flow of work than a smaller volume. It is also possible to schedule the work to better advantage and to lay out the machines and equipment more effectively.

For example, five different machines are involved consecutively in a certain manufacturing process. The capacities of the 5 ma-

Records That Facilitate Production

- A. Production control records
 - 1. Condition of the work
 - a. Work ahead
 - (1) Scheduled
 - (2) Not scheduled
 - b. Progress of work
 - c. Work finished
 - 2. Machine situation
 - a. Machines available
 - b. Machines running and on what
 - c. Machines idle and why
 - (1) Waiting for work
 - (2) Waiting for repairs or parts
 - (3) Down for repairs
 - (4) Waiting for operator
 - 3. Help situation
 - a. Men working and on what
 - b. Men available, now or shortly
 - c. Men needed: when, where, on what work
- B. Material control records (inventory control records)
 - 1. Material on order
 - a. When ordered
 - b. When due
 - c. Items, quantities, suppliers
 - 2. Material received
 - 3. Material issued or allocated: requisitions, orders
 - 4. Balances of stock on hand and where located: perpetual inventories
 - a. Raw materials
 - b. Finished goods
 - c. Goods in process

With the above information, work can be planned intelligently.

chines differ. Machine A has a capacity of 10 units an hour; B can turn out 6 units an hour; C is rated at 4 units an hour; D will handle 2; and E will take only 1.

If orders are put through at the rate of 5 units an hour, machine A will be idle half the time, and B one-sixth of the time, while work will pile up at each of the other machines. If more of the lower-capacity machines are procured, there will be less delay in putting the work through. For example, with a rate of flow of 5 units an hour, 2 C machines would be needed, 3 D's, and 5 E's.

Operating Principles

1. Proper recording of the order
2. Planning of the work
 - a. Routing the job
 - b. Scheduling the job (always includes the time factor)
 - c. Laying out materials and tools
3. Assigning tasks to competent individuals
4. Keeping track of the work as it progresses
5. Checking the finished product to see that it fits specifications
6. Delivery of the goods

Machine A would still be idle half the time, and machine B one-sixth of the time, but the work will not pile up. If there is a sufficient volume of orders to step up the rate of flow to 10 units an hour, 2 B's, 3 C's, 5 D's, and 10 E's will be needed then. There would be a minimum of delay in putting work through.

A Job for the Sales Department. If there is not sufficient volume to sustain a flow of work of more than 5 units an hour, the problem then would be to schedule production accordingly, and see if it is not possible to get orders of a kind that will keep machine A busy on other work half the time. Or possibly certain operations might be performed on it for another manufacturer who has no A machine. Sometimes, a rearrangement of the work is possible; if not, it may be better to replace machine A with a more economical one. In any case, one might well question the soundness of the reasoning that led to the purchase of machine A in the first place.

ROUTING OF WORK

Routing of work is concerned with the order in which the various operations are to be performed and with the departments through which the work is to pass. To a great extent, the order of processes is governed by the work to be done; some steps cannot

Shop System

The purpose of shop system is primarily to watch the progress of work and to see that no delays occur, including especially such likely causes as the following:

Materials	Running out of stock Not getting the right kind Not ready at time and place needed
Equipment	Not in running condition Not set up Not available (busy on other work)
Help	Not competent Not on the job Not assigned to the work
Working conditions	Poor light Too hot or too cold Too much preventable noise Not enough space

be taken until other steps have been performed. Consider a job-printing plant, for instance.

A Good Example. When a job-printing plant receives an order, the job cannot be printed until the type has been set, locked up, and placed on the press. Also, the right ink and paper of the specified grade, color, and size must be ready. But none of these steps is effective if the press itself is tied up with another job.

It is conceivable that all the preparatory work may have been done, only to find that some simple factor has not been provided for. Here is where planning and scheduling come in. These principles are applicable in practically every kind of manufacturing business, even though the methods may vary.

Facilities Available. In this job-printing shop is an office, a stock and shipping room, a composing room, and a pressroom. In the stock room are certain quantities of various kinds of paper and cardboard, determined by the general run of the work. There is also a guillotine paper cutter. In the composing room are cabinets of display type, a typesetting machine for body type, one or more imposing stones on which to make up forms, and an assortment of chases, which are iron frames for locking up forms of

Req. No. _____	REQUISITION FOR STOCK			Job No. _____
STOCK CLERK —				
Have ready following stock for Job No. _____				
Quantity	Size	Description and Quality	SPACE BELOW IS FOR STOCK CLERK TO FILL IN	
			No. Sheets	Size
Signed _____			Ordered _____ by _____ No. _____	
Rec'd _____ Sheets X for Job No. _____			From _____	
			Rec'd _____ by _____	
Charged _____			Cut by _____ O.K. _____	
FEEDER			BOOKKEEPER	

Advance notice to the stock clerk permits him to have the material ready at the time that it is needed.

type for the press. In the pressroom are five presses of varying sizes and styles, each adapted to certain kinds of work.

An Order Is Received. When a job comes into the office, it is in the form of copy, perhaps for a display circular or poster. The wording is definite. The customer has an approximate idea of the size of the finished sheet. He knows how many he wants. The styles and sizes of type may or may not have been indicated. The color of ink is probably black. The job is wanted within three days.

What This Order Requires. The styles and sizes of type must be indicated, and the type set. The grade, weight, and color of

the paper must be determined, and the paper cut to size without waste, if in stock; if not in stock, it must be ordered. The ink must be selected to match the paper; bond ink would pull off the surface of coated paper, and news ink would not stick to bond paper. The press best suited to this job must be indicated, and its availability ascertained.

Information Needed in the Office. The proper carrying out of these details depends on the information in the office. The following information should be available:

1. Paper and cardboard in stock
 - a. Grades, weights, colors, sizes, quantities, costs
 - b. Names and telephone numbers of suppliers
 - c. Sample books of suppliers
2. Styles and sizes of types in the composing room and on the machine
3. Progress on jobs ahead in the composing room
 - a. Jobs not yet started
 - b. Jobs partly set
 - c. Jobs set, but not made up
 - d. Jobs made up, but not locked up
 - e. Jobs locked up, but not sent to the pressroom
4. Progress on jobs ahead in the pressroom
 - a. Forms waiting for a press, and press indicated
 - b. Forms being made ready on press
 - c. Forms in press, ready to run, waiting for something
 - d. Forms on press, now running
 - e. Jobs finished, drying
 - f. Work ahead for each press

Intelligent Action Is Possible. With the information above, the office can see the condition of work in the plant and is thus in position to take several actions:

1. Give the customer a reasonable delivery date
2. Know whether the desired paper is in stock
 - a. If in stock, give stock clerk cutting directions and date stock should be delivered to pressroom
 - b. If not in stock, order from supplier, and notify stock clerk
 - (1) That the paper has been ordered
 - (2) To inform office when the paper arrives
 - (3) To cut the paper according to directions
 - (4) To deliver the paper to pressroom on a certain date

3. Mark the copy for styles and sizes of type
4. Send the copy to the composing room with date to be delivered to pressroom
5. Notify pressroom, indicating press and date promised as well as the details of the order, such as size, paper, ink, and other instructions
6. Follow the progress of all orders through shop

CONTROL OF THE MANUFACTURING SCHEDULE

For this shop, daily reports from the three departments involved will be sufficient. For some manufacturing plants, hourly reports are none too frequent. In one well-known concern, the completion of each part of a job is reported at once by an electric device to a central production control desk, which is thus constantly and immediately informed of the progress of work. The breakdown of a machine is learned instantly, making it possible to reschedule work planned for that machine. All details are so planned and scheduled that they meet at the proper points without delay. Nothing is left to chance; the management *knows* at all times the condition of work. That is why *scientific* management is so called; it is based on facts, not hunches.

CONTROL OF THE QUALITY OF THE PRODUCT

The manufacturing end of a business is responsible for production, for producing quickly at a reasonably low cost. But it is also responsible for the quality of the product. Quality is controlled by having precise specifications and conscientious inspection of the product to see that the specifications are adhered to. Usually, certain tolerances are allowed—that is, limits within which the product may vary one way or the other.

In many concerns, an engineering department is responsible for design, specifications, and inspection. Careful inspection has a direct effect on costs. The earlier in a manufacturing process that defects are discovered, the less labor will be subsequently wasted on defective material. If a defective product reaches the customer, he will not think highly of the company. Some large customers send their own inspectors to a supplier's plant before the goods are shipped, to make sure that no delays will result from imperfect goods, which would have to be returned, incurring transportation expense both ways.

QUESTIONS FOR REVIEW AND DISCUSSION

1. Comment briefly on equipment used in manufacturing.
2. Name, explain, and give examples of the two main types of manufacturing industries.
3. What is meant by synchronizing in manufacturing?
4. What are the two types of continuous manufacturing industries? Give your own examples, if possible.
5. What is the difference between manufacturing to order and manufacturing for stock? What are the advantages and disadvantages of each?
6. Why do some concerns manufacture for stock, while others manufacture only to order?
7. "There is enough skill involved in the successful administration of a manufacturing enterprise to warrant the application of the best brains available." Explain and comment.
8. The manufacture of any article involves what three factors?
9. Is a design necessarily stable? Why or why not?
10. What four requirements must a design meet? Explain each.
11. Comment on designing a product so that it does not interfere with economical manufacturing processes, and explain the latter.
12. "Design must suit the material of which the articles are to be made." Comment.
13. Comment briefly on each of the following as materials for manufacturing: iron and steel; copper, aluminum, magnesium, and titanium; plastics.
14. On what three factors does the choice of materials for manufacturing a product depend?
15. What effect on the choice of materials has the purpose of an article? Explain.
16. How does the inability of many consumers to distinguish between good-quality and poor-quality goods affect quality and design?
17. "Processing requires labor and machinery." In what proportion would each be used?
18. What is the tendency in machine design? Why? What is the effect on the cost of a product?
19. Based on the experience of Henry Ford and James Lincoln, does increasing wages always increase efficiency? Explain and comment further.
20. Why is it desirable to keep machines in operation?
21. What methods are used to keep machines in operation?

22. What is a stockpile, and what is its purpose?
23. What determines the arrangement of machines and equipment in a manufacturing plant?
24. Describe the straight-line production plan.
25. Describe the production center plan.
26. How many of each kind of machine are needed in a manufacturing plant? Explain.
27. Describe routing of work, and illustrate your answer.
28. Based on the detailed information that is needed in a job printing plant concerning the work in hand, outline in general terms the information needed in any manufacturing plant so that a customer will know when he can expect to receive his order.
29. How is the quality of a product controlled?
30. Explain tolerances.

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees.

1. Select five manufacturing concerns in your locality, and determine the kind of manufacturing that each is engaged in, explaining those features on which you base your opinion.
2. Select any local manufacturing concern, and list the materials used in making its product. Find out if any of the materials have been changed within recent years and the reasons for such changes, if any. Find out also if other substitutes could be used, if necessary, and the advantages and disadvantages of such substitution.
3. Ask a local manufacturer if he has recently changed the design of any of his products, and the reasons therefor.
4. Ask permission to follow a production order from the time that it enters the shop until the manufacturing job is done. Take notes of all that you see, and afterward write a description of the route of the order.

PROBLEMS

1. A manufacturer of electrical apparatus had a chief engineer with complete authority over manufacturing and design. Occasionally, he would order a change in the design of certain apparatus. Within six months, complaints from customers would necessitate removing the unsatisfactory equipment and substituting new.

Finally, one of the directors insisted on an investigation. The chief engineer was too valuable to be released, and since he was highly temperamental and supersensitive, the company did not want to lessen his prestige. What suggestions would you make for meeting such a situation? Give your reasons.

2. A shoe buyer, a good customer, asked a factory to construct some shoes according to his specifications. He was advised that such specifications would not allow the shoe to be constructed correctly, and it would not be durable. He insisted. Finally, the manager agreed to make the shoes to the buyer's specifications. A few weeks later, some of the shoes were returned with the soles cracked across the vamp. The buyer maintained that the shoes had not been made according to his specifications, stating that he was going to return the whole lot, and that he now wanted a new lot made according to the specifications. What could the manager do under these circumstances? Give your reasons.

CHAPTER XIX

Organization of the Individual

I look for a person who possesses an enthusiasm and optimism for life, who makes a zestful, confident attack on his daily problems, one who shows courage and imagination, who pins down his buoyant spirit with careful planning and hard working.

—HENRY J. KAISER

There are always opportunities for well-prepared and thoroughly trained workers, although they are more obvious at some times than at others. The position of the worker who wants a job is similar to that of the salesman who wants an order. Each must find someone who wants what he has to sell. On the other hand, the most difficult problem facing employers *at all times* is the problem of *finding workers on whom they can depend* to accomplish the work that has to be done.

UNLIMITED OPPORTUNITIES

Opportunities are all around us, but they are seldom to be had for the asking, and sometimes real salesmanship is necessary to convince an employer that one is the person for the job. Few employers are willing to hire the first applicant, any more than a shopper expects to buy the first piece of merchandise shown by the salesclerk. An employer is not hiring someone just to sit at a desk or stand behind a counter; he wants an employee who can do the work the way he wants it done or is willing to learn and on whom he can rely. Too many employees consider their jobs a necessary evil that must be tolerated for the sake of the pay and

do not consider the employer's side at all. Many an employee feels that he is doing his employer a favor by consenting to work for him and by continuing to do so. Anyone with such an attitude need not expect to get very far in business.

ESSENTIALS FOR SUCCESS

There are five essentials for success in any line of endeavor:

1. Thorough preparation
2. Selection of the right employer
3. Proper presentation of qualifications
4. Continued and intelligent application to the job
5. Alertness for opportunities to serve the employer

If a person is not thoroughly prepared, he cannot expect too much consideration, either from a prospective employer or from his present one. Thorough preparation means enough education, training, and *practice* so that a worker is prepared to make the most of his opportunities. Good training means thorough instruction by a competent experienced instructor, with opportunity for practice under direct supervision.

The world is full of people who believe that the world owes them a living, but who do little or nothing to justify that belief. Their usual justification for this opinion is, "I didn't ask to be born." What a comment! The least that anyone can do is to be thankful for the gift of life and for the opportunity to do something with his life.

Many a person feels that his strongest recommendation for a job is that he needs work. The most that such a person can expect is charity, in whatever form it may appear. A synonym for charity is alms, which means anything given gratuitously to relieve the poor. Josh Billings, the noted humorist, expressed the thought pointedly when he wrote, "The cent pieces wuz made for charity." When employment is sought on the basis of need rather than merit, do not expect much in the way of return. Only by giving value for value can one expect large returns.

No merchant ever made a success simply by hanging out a sign, "Store Open for Business," because relatively few of the possible customers will see the sign, and even they will not come in unless the store has something they want. Desire to buy what

the merchant has to sell is created by advertising and sales promotion. In the same way, no prospective employee can expect much by simply announcing that he is open for a position. The merchant must have goods that people want; the applicant for employment must have willingness to work or ability that employers want. The employer wants someone who is able and willing to do the required work, not just an addition to his payroll.

SELECTING AN EMPLOYER

It is assumed that every reader of this chapter has by this time thoroughly prepared himself and is ready to place his time and ability at the service of some employer who wants the kind of ability he possesses. How shall he find such an employer?

At all times, regardless of general business conditions, five conditions are present in every concern that create job opportunities:

1. Employees are being released for incompetency.
2. Employees are being promoted.
3. Employees are leaving to be married.
4. Employees are leaving to take other positions.
5. Employees are leaving on account of sickness, travel, death, or accident.

In all the above cases, someone must do the work these employees were doing. To these five conditions, a sixth may be added in normal or boom times:

6. The business is expanding and creating new jobs, and more employees are required to handle the increased volume of work.

Why should an employee be released for incompetency? If an employee is hired for a certain kind of work and represents himself as able to handle that work, he has only himself to blame if he is released because he is incompetent. On the other hand, if an employer hires an incompetent person, he may have some moral responsibility to help the employee to get work of some kind. To avoid such unpleasant and unfortunate consequences is one purpose of employment tests and references.

Employees are promoted when they have an employer who recognizes merit and advances his workers on the basis of accomplishment and competence. A concern with a well-planned promotion policy is usually a good concern to work for.

An employee may leave his employer of his own accord for one or both of two reasons: he may be dissatisfied with his pay, his work, or his prospects; or he may think there are better opportunities in another concern. An employee who is contemplating a change for the second reason should keep in mind the old saying that "the grass is greener in the other fellow's yard."

In normal or boom times, a business expands by going after more business, advertising aggressively, opening up new territory or additional branches, or adding new products or services to the line. This expansion means more customers, more orders, more work, more jobs. Although the present staff may be able to handle the increase in work up to a certain point, there is a limit.

ANALYZING OPPORTUNITIES

There is a large amount of work to be done in business and there are real opportunities for applicants who are thoroughly prepared. The question each individual must answer is: "How can *I* take advantage of these opportunities?"

The answer involves a comparison of the opportunities afforded by local and nonlocal business concerns. The choice depends somewhat on the applicant's objectives, the type of work for which he is prepared, and whether he prefers to live at home, to commute, or to move to another community. It is generally considered beneficial for a well-adjusted young person to get away from home and be on his own. The adjustment may be difficult at first, but it helps to develop self-reliance. This advice does not mean that one should go elsewhere before he has a job lined up. It is desirable to get the job first, then go where the job is.

In analyzing local opportunities, the following questions should be answered: What concerns are in this locality? What work do they require. Do they have enough competent workers? Is their business increasing or decreasing?

If local concerns do not seem to offer opportunities, the scope of the survey must be widened to take in an increasingly larger field. Let the applicant seeking a position take the same attitude as the salesman seeking orders: "Somewhere there is a concern that wants what I have to sell. If the only way I can find that concern is to ask every firm, then I am going to do just that. Sooner or later I shall find that concern. Meanwhile, I shall keep right

on asking." The job seeker simply substitutes "someone with my ability" for "what I have to sell."

If local concerns seem to offer several opportunities, the choice of the right one is important. You may wish to enter a certain type of business, such as banking, insurance, retailing, manufacturing, or a business handling a commodity, such as lumber, hardware, or woolens. An examination of the field will help to determine the businesses for which you have some preference or aptitude. If you decide to learn a business, such as lumber or hardware, you should expect eventually to know that business from top to bottom, inside and out. In other words, you will become expert in that particular industry, and you may know little about any other. Therefore, it is wise to give considerable thought to your choice.

TWO STANDARDS BY WHICH TO CHOOSE

A person has two standards by which to choose: the kind of work that he feels would interest him most, and the kind of work that probably would be in most demand—in short, the line in which he could do the best work, as compared with the line that would pay the most money for his effort. Some persons will choose one, some the other. The best way is to try to satisfy both standards as far as possible. There are only three things that one can get out of his work: happiness, money, experience. If he can get all three, fine; if only two, not so bad; if only one, then let him choose the one wisely and not complain because he cannot have the others too.

Virtually all human activity can be expressed in the terms used in the Declaration of Independence—the providing and maintaining of the factors essential to "life, liberty, and the pursuit of happiness." What things are essential to life? Food, clothing, and shelter. To liberty? Protection and education. To the pursuit of happiness? Nearly everything that is not included in the other two.

Another division into which all these factors can be separated is that of necessities and luxuries. Some foods are necessities; others are luxuries. Some clothing is a necessity; some are luxuries. The dividing line between necessities and luxuries is not clearly defined, nor will it ever be, probably; but it will be found that, as

the things essential to life and liberty approach the description of luxuries, they also seem to become more or less essential to the pursuit of happiness. Some wit has defined luxury as "anything you desire, but don't need and can't afford." Any extravagant indulgence would be a luxury.

BE PERSISTENT

This survey of opportunities may seem like a lengthy job and rather tedious perhaps. But you are planning for your lifework, and a few days or a week, or even a month or more, spent in find-

Three Principal Ways of Making a Living

1. Getting on someone's payroll
2. Lending one's savings to business enterprises
3. Starting, or helping to start, a business enterprise

About three out of four persons fall in the first group; they are *job holders*. Millions of people get some income, large or small, by lending their savings directly or through such channels as insurance companies; they are *suppliers of loan capital*. About one person out of four has his own business enterprise, and several million persons are part owners of business enterprises; they are *job givers*.

The amount of employment in a community depends, in the main, on the number of persons who attempt to make their living, or part of their living, by giving jobs to others rather than by getting on someone's payroll.

—JAMES H. McGRAW, JR.

ing your place in business will be well spent. Consider the answers to these questions: How many years do I expect to live? What proportion of these years do I expect to spend in producing a life income? Is it worth while, then, to plan for those years ahead?

You are not planning only for the next two or three years; you are planning for the next twenty, thirty, or forty years, depending on your present age. And what you do in those years will depend largely on the nature of the steps you take now.

Sometimes, the question is asked, "When should a young person start to think about his lifework—when he is ready to look for a job, or if before that, how soon?" This is not an easy question to

answer offhand. Generally, no child should be too seriously concerned with his choice of lifework before he finishes junior high school, in the absence of economic necessity, which would make some choice imperative. If a boy or girl has a chance to go to college and has scholastic aptitude for college work, this choice of lifework may be deferred until he is about to graduate from senior high school.

Most liberal arts college students do not begin to think seriously about their lifework until the beginning or middle of their senior year. It would seem desirable, therefore, that every student should be exposed to orientation courses early in the college years, so that he may be pointing his efforts toward the possible future work in which he may spend his business years.

The intelligent job seeker should pick out two or three of the really big men in the lines of business in which he is interested and call on them, asking questions about their work and what opportunities it offers. If they are approached in an earnest, sincere, businesslike way, these men, whose time is so valuable that it cannot be bought, ordinarily will give a young person their attention. He will be able, perhaps, to go through their offices and shops and plants and find out at firsthand whether the work would appeal to him. Thus, the young job seeker can get an idea of almost any business and determine more easily which one to enter. Of course, he hardly can expect to include everything in one or two hasty trips, but he will get some worth-while ideas.

It is vital in such interviews and trips to realize the importance of your attitude. You must keep in mind the fact that you are merely seeking information about the kinds of businesses, not looking for a job. You may be offered a job, but you should not solicit one on these occasions, and should not expect it or be disappointed if a job is not offered. Keep yourself personally out of the picture, and obtain as much information as possible about the line of business.

THIS IS GOOD ADVICE

The following advice, given by one manager to an applicant, should be helpful:

When you have determined the line of endeavor you want to take up, two ways of getting a position are open to you. One is to scan the

classified advertisements in the newspapers and trade journals; the other is to select the most progressive concerns in your line and write to the manager or to the employment manager. Whichever way you choose, the information desired by your prospective employers is much the same—the main points on which you will be judged are what you can do and how well you can do it. That is, if you are selected for a position, it will not ordinarily be because of your knowledge, but because of how well you can apply that knowledge.

In many instances you will be given an application blank to fill out. The care with which you fill out this blank, and your answers to the questions asked, will go a long way toward determining whether or not you are fitted for the job.

If, on the strength of your written application, the manager is interested enough to consider you further for the position at his disposal, he may ask you to call and see him. Or, if you are in his office when you make out the application blank and he is in a hurry to fill the job, he may see you then and there. Some managers, unless the need is urgent, do not like to decide at the time of the first call, but will ask you to come again the next day, or possibly later the same day. This also gives the manager an opportunity to look up your references and satisfy himself as to your character.

USE THESE AGENCIES

Just as a salesman calls on *all* prospects, so should the job seeker use every available means for getting a job. The employment agency is one such logical source of positions. Although all business owners and personnel managers do not use the services of employment agencies, enough do so to enable the agencies to continue in business year after year. Such a service must be worth while, or it could not continue.

If an applicant makes a favorable impression on an agency manager, his chances for being sent to apply for a job are much greater than if he is indifferent or careless. Some large concerns leave standing orders with employment agencies to send them every applicant who measures up to their standards. Other firms use agencies only when they have definite positions to fill.

FIRST IMPRESSIONS ARE LASTING

The first point about an applicant that impresses an agency manager and that makes one applicant stand out from the rest is appearance. A favorable appearance is created by neatness, abso-

lute cleanliness, an erect bearing, and an air of alertness. Why anyone should be so careless of his chances as to neglect important points like these is hard to understand. Yet hundreds of applicants receive little or no consideration simply because their poor appearance causes the agency manager to hesitate to send them out as representative of his agency. The agency manager wants to create a favorable impression on employers as to the type of appli-



Courtesy National Association of Manufacturers

An investment in good appearance may well start with a visit to the barbershop.

cants he handles, and he cannot afford to refer the wrong kind of applicants lest he lose business.

The agency application blank should be filled out with exceeding care. You cannot be too careful. It is so easy to make this sample of your work stand out from many other applications received by the agency that there is no excuse for not making the effort. Be sure to answer every question, lest it be thought that you are trying to conceal something. And be sure that your answers are truthful.

FOLLOW THESE INSTRUCTIONS

Merely filing an application is not enough, however. The applicant should ask the agency manager when he should call again

and how often. Some agencies want their applicants to call daily at certain hours. After ascertaining the wishes of the agency manager in this respect, the applicant should follow them strictly. Whatever else is done, the applicant should not make the mistake

Personal Questions That Concern You

1. Am I physically fit? Am I up to standard for my age in weight and height?
2. Am I fond of outdoor recreation? Do I excel in any athletic games?
3. Have I decided on my vocation? Am I doing anything that is directly preparing me for my lifework?
4. Am I neat and careful in my work? Do I give enough and yet not too much attention to my personal appearance?
5. Am I a coward physically or mentally? Do I have the tenacity and will power to stick to my work and face difficulties?
6. Do I perform my mental and physical work to the extent of my possibilities? Am I above the standard in my line of work?
7. Am I a shirker? Am I interested and attentive to detail, or am I looking for the easy job?
8. Am I punctual in all my work and appointments? Have I attended school or kept other engagements for several years without failure?
9. Am I a knocker or a grouch? Am I as cheerful and polite at home as I am with strangers or in business?
10. Do I choose the right kind of associates? Am I fond of gambling or any game of chance?
11. Do I enjoy reading good books or magazines? Am I interested in the things that have made others successful?
12. Am I fond of music or art? Do I have a hobby that may be of permanent value?
13. Do I control my temper? Am I invariably courteous to others?
14. Am I truthful at all times? Do I deceive myself as to my honesty?
15. Am I accurate and rapid in my work? Am I interested in improving my efficiency?
16. Did I ever get a job by my own effort? Am I capable of filling some position well? Have I cultivated my observation and memory?
17. Am I loyal to my employer and friends? Can I be relied on in time of trouble? Do I talk too much?
18. Have I a savings bank account? Do I save money because I am stingy or selfish? Do I want money to spend in self-indulgence?
19. Have I formed habits of thinking and doing that may some time injure my health or character?
20. Do I wish to succeed for the purpose of showing off, to have an easy time, or to satisfy my ambition or appetites?

of telephoning the agency and asking if anything has come in. With many new applicants coming in daily, it is almost impossible for the manager or his assistant to remember everyone. For that reason, a personal visit is always more effective; and repeated visits help to fix an applicant's features and qualifications in the manager's memory, so that even though he may not be in the office when the right job turns up, the manager may remember him favorably and send for him in preference to others.

All private employment agencies charge a fee for their services. This fee, which is ordinarily paid by the applicant, is usually one week's salary, payable in weekly installments, after getting a position. A few employers pay the agency fee, on the theory that the company is getting service from the agency and can afford to pay the fee better than an applicant who may have been out of work for some time and need the money for living expenses. But this practice is not universal.

A qualified applicant should not hesitate to use the services of an employment agency and pay the fee, since the value of the time saved in getting a position will often more than offset the fee. If a person is out of work five weeks, he is out five weeks' salary; if by going to an agency, he could have been placed in two weeks, he would be paid for three weeks, even though one week's pay went to the agency. In one case, he is out five weeks' pay; in the other, only three.

The suggestions as to appearance apply with equal force when interviewing a prospective employer. Neatness, cleanliness, erectness, and alertness impress an employer more quickly than any other feature about an applicant. Employers know that it is difficult to find employees who are really interested in their work; therefore, they are eager to talk with someone who looks the part.

Many people do not realize the two-sided purpose of the employment interview; they believe it is entirely one-sided. The employer, of course, is trying to decide whether he wants to hire this applicant; but he also may have to convince the applicant of the desirability of working for this company. The applicant, on his part, has to present his qualifications in such a way that the employer is favorably impressed; but the applicant also is trying to decide whether he wants to work for this particular company.

GIVE THE EMPLOYER A CHANCE

Perhaps, the greatest mistake made by an applicant in an interview is talking too much. He is usually eager to get a job, and in his eagerness tries to impress the employer with his ability by talking too much about it.

During the interview, the applicant should sit quietly and respectfully (but not abjectly), ordinarily not speaking except in answer to questions. It is better to be thought stupid by keeping quiet than to prove it by opening one's mouth. But no employer



Philip Gendreau

"When the president dies, we hire another office boy," is the policy of one concern. That's why the employment interview is so important—not always so much for what the applicant is, as for what he may become.

thinks the quiet applicant is stupid. He respects the applicant's ability to "hold his peace," giving the employer a chance to frame questions that will bring out the information desired. The employer knows what information he wants. Most applicants do not, and therefore should wait for questions before volunteering information that may disrupt the employer's train of thought.

WATCH THIS POINT CAREFULLY

Occasionally, an employer will be found who prefers to have an applicant tell his own story. With such an employer, the applicant

should be very careful not to say too much. He should speak clearly and distinctly, emphasizing the excellence and thoroughness of his training and any valuable experience, if he has had some. Above all, he should beware of dwelling on any unfortunate experiences that he may have had on his previous jobs. It is better to say nothing about them than to give a prospective employer the idea that the applicant cannot forget his troubles.

For whatever reasons an applicant left his previous positions, he should not dwell on them, but simply state the fact and then, as though it were no longer important, ask the employer a question about the work connected with the new job. This can be done so naturally that undue emphasis will not be laid where it does no good. A plain statement of the work done (as distinguished from the name or title of the position held) will give the employer a clear idea of how well the applicant knows his job. Sometimes, a question or two may be interspersed, such as "Is that the way you do it here?" or "Perhaps you do it differently."

WHAT THE EMPLOYER WANTS TO KNOW

Both the applicant and the employer have certain questions to which they are trying to find the answers. The employer has in front of him the application blank, stating the main facts and demonstrating the neatness (or lack of it) of the applicant's handwriting. Beside his desk sits the applicant, on dress parade. The employer's problem is to determine the answers to these questions:

1. Can this applicant do well the work connected with this job?
2. How will he get along with our other employees?
3. How much salary does he want?

A moment's thought will show that the second question is dependent on the first being answered in the affirmative, and the third on the second. If the applicant cannot do the work, he will not have a chance to get along with the other employees, and if the employer decides that the applicant would not be a desirable addition to his working force, the question of salary is not important.

A prospective employer wants to know where an applicant has worked and what he did there so that he can evaluate this former experience. Also, he wishes to check with former employers the

Questions Asked by Employers

Here are some of the questions that must be answered by applicants for a position. They were taken from the application blanks of several different firms. Why do you suppose that any company would care to know the answer to each of these questions? Do you think you could answer them satisfactorily?

- 1 Give your name, age, height, weight, the color of your hair and eyes and your complexion
- 2 What education have you had?
- 3 What school did you last attend?
- 4 How long has it been since you left school?
- 5 Why did you stop school when you did?
- 6 Why did you leave your last position?
- 7 If you are now employed why do you wish to change?
- 8 Do you live with your parents?
- 9 Have you anyone dependent on you?
- 10 Do you attend church?
- 11 Are you addicted to the use of tobacco, liquor or opiates?
- 12 Is your health good?
- 13 Do you have any defect of sight, hearing, speech, or limb?
- 14 What are your favorite forms of recreation?
- 15 To what club, union or society do you belong?
- 16 Have you done any studying since leaving school? If so, what?
- 17 Have you ever been discharged? Give full particulars.
- 18 Have you ever been charged with being in arrears in any position?
- 19 Did you ever give a surety bond?
- 20 Would you be willing to do so if required?
- 21 Are you financially interested in my business?
- 22 Have you any income aside from your salary?
- 23 To what extent have you engaged in speculation?
- 24 To what extent are you in debt?
- 25 Do you carry any life insurance?
- 26 Do you carry any accident insurance?
- 27 Have you ever been involved in any lawsuits?
- 28 Do you own any real estate?
- 29 Have you a savings bank account?
- 30 If married, give the name and address of your wife or husband
- 31 Give the name and address of your parents, if living
- 32 If you are not married and your parents are not living, give the names and addresses of your nearest relatives
- 33 Are you subject to dizziness or fainting spells?
- 34 What long or serious sickness have you had?
- 35 Have you ever been injured? If so, to what extent?
- 36 Were you ever operated on? If so, for what?
- 37 What languages do you speak or write?
- 38 If you subscribe regularly for some magazines, state which ones
- 39 Name some book of fiction, travel, science or business that you have read and liked

40. What newspapers do you read, and which sections of these papers interest you most?
41. What kind of work do you like best?
42. What work do you think you are best qualified to do?
43. Do you have any hobby, such as music, painting, or drawing?
44. Give the names and addresses of your last three employers.
45. Give the names and addresses of three persons, not relatives or employers, who can certify as to your character.
46. What leads you to make this application, and why do you think you could succeed in this business?

quality of the applicant's work, how well he got along with fellow employees, and why he left. Particular attention is paid to discussing the dates of employment for comparison with the dates given on the application blank.

The prospective employer also may ask for other references, although there is some question as to the trustworthiness of some references. The value of any statement depends a lot on the person who makes it. Some people are careless in answering a reference request; their statements are not of much value. Others are perhaps too careful, tending to understatement rather than otherwise. Before giving references, it is wise for the applicant to visit each contemplated reference, if possible, and to refresh his memory on the applicant's skills while asking permission to use his name.

INFORMATION DESIRED BY THE APPLICANT

The questions that the applicant wants answered are these:

1. Do I want to work for this company?
2. If I do, and they want me, how soon do I start?
3. What will my work be?
4. What are the working hours?
5. What will my pay be?

An Interesting Fact. It may seem strange to bring up the question of whether the applicant wants to work for this company, especially after getting as far as the interview. But the interview is not one-sided; its primary purpose is to bring together employer and applicant, to let them see and talk with each other and to size each other up. If the employer has the privilege of deciding whether he wants to hire this applicant, the applicant

has the same privilege of deciding whether he wishes to work for this employer. Any other course would be slavery; the law compels no one to work for someone he does not want to work for.

Until both employer and applicant agree, there is no contract; and unless each likes the other, the result is not likely to be happy. Of course, the applicant may need a job so badly that he is willing to take any position that is offered to him. Under these circumstances, he cannot afford to be too independent, but must decide to make the best of things. After all, he may find that the employer is not so bad as he thought; it has happened that way time and again.

Have Your Answer Ready Beforehand. The second question the applicant wants answered is, "If they want me, how soon do I start work?" Since nearly all employers put off hiring additional help as long as possible, the need becomes pressing, and most employers expect the applicant to be willing to start at once, either the same day or the next morning at the latest. Many applicants, otherwise favorably considered, try to put off the starting day to the beginning of the next week or the first day of the next month. Hence, an employer is likely to be agreeably surprised if an applicant answers the question "When can you start?" with the answer: "Just as soon as you want me. Today, if you wish." The employer has work to be done, and if the applicant shows that he appreciates that fact and is ready immediately, the right kind of employer cannot help being favorably impressed.

As a rule, the applicant should not ask the question about starting, unless the employer overlooks it. Usually, the employer will ask, and that is preferable. If he should not ask, the applicant can put the question casually. "When would you want me to start?"

You Must Know This. The answer to the third question of the applicant, "What will my work be?" usually develops in the course of the interview, but it is well for the applicant to be sure that he understands definitely what work will be required of him. If in doubt, he may say, "I understand that I am to do (blank) and take care of (blank), in (blank) department, and also keep my eyes open for any other duties that may come my way." Such a statement, if correct, will indicate to the employer that the applicant understands what is wanted. The lack of a clear

understanding at this point has resulted in many embarrassing consequences. If either person overlooks the point, the other should bring it up.

Don't Ask This Question. The fourth question is one that the applicant wants to know, but he should not ask the employer, "What are the hours?" since many employers have the feeling that the bulk of their employees are "clock watchers," with more concern for the closing time than for finishing the work in hand. Employers who are enthusiastic about their work or profession, or who own their own businesses, are inclined to think that those whom they employ should have the same enthusiasm and should not work by the clock. This attitude is unreasonable, but it does exist. If an employee can turn it to his advantage, there is no reason why he should not do so.

Of course, the applicant must know at what time he is to start work and quit, but he need not ask the employer for that information. Usually, the employer will volunteer it, or the company may have a handbook of rules and regulations containing this and other helpful information. If hours are not mentioned, the applicant may ask, *after he has been hired* (and not before), this simple question, "What time is the door open in the morning?" This way of putting the question is bound to bring out the desired information, at least as to starting. The closing hour may be ascertained next day from fellow employees; meanwhile, the employer has not been given an unfavorable impression.

How Much Salary to Ask For. The employer may state the starting salary and let the applicant decide whether it is satisfactory. Or he may ask the applicant at what salary he would be willing to start, which puts the applicant in a position that must be handled carefully. If the applicant states too high a figure, the employer may conclude that he cannot afford to pay that amount and declare the interview at an end. If the applicant states too low a figure, the employer may decide that the applicant is not very competent, after all, or he may agree to pay the low figure, which may be less than the job is really worth, in which case the applicant is working for less than is necessary or desirable.

When the employer asks the question "How much would you be willing to start at?" the applicant should say something like

this: "You know what that work is worth better than I do. How much are you now paying the persons who do it?" This response turns the question back to the employer.

If the applicant has definite ideas about salary, he should say something like this: "I understand the usual salary for this kind of work is (blank) dollars. That will be satisfactory to me to start." Or, "My last salary was (blank) dollars. Although it is customary to receive more on a change of this kind, I should be willing to start with you at that salary until you have had a chance to judge my ability and value to you." Or, "I should think that (blank) dollars would be about right for this work. That would be satisfactory to me to start." Or, "I had in mind about (blank to blank) dollars. Is that agreeable to you?" This last proposes a range; the lower figure should not be less than the applicant is willing to start at, because most employers will accept the lower figure. It would be better to put the lower figure at what the applicant feels is about right, and the upper figure at \$3 or \$4 a week higher.

Many business concerns are setting up a system of salary standardization that provides maximum and minimum salaries for each kind of work. Under such a plan, an employer does not ask what the applicant is willing to start at, but tells him the standard salary for the job. The applicant then has the choice of deciding whether he wants to start at that figure. Generally speaking, a concern that has a well-planned system of salary standardization should be a good company to work for from the salary standpoint, since each employee knows he is getting as much as others who are doing the same work. Also, such a plan usually explains how an employee can earn increases or promotion to higher and better-paid positions. It reduces uncertainty to a great extent, if fairly administered.

Leaving a Good Impression. After the interview is over, if the applicant has been hired, he should bid the employer good morning or good afternoon in some such words as these: "I have enjoyed our talk very much. I shall be on hand tomorrow morning at eight o'clock."

If the applicant was not hired, he should leave the employer with as pleasant an impression as possible by saying: "Thank you for the interview. I have enjoyed meeting you."

THE FIRST DAY ON A NEW JOB

The first day on a new job is often a trial to all concerned, but particularly to the new employee. Everything is strange and confusing—the work, the workers, the equipment, the surroundings. Before long, however, everything will straighten out, and the confusion clear up. All that is required is patient, determined effort and continued application to the job.

Listen Closely to These. Usually, some instructions for doing the work will be given, either by the department head or by some other supervisor. Frequently, the new employee is instructed by an older employee. In any case, the new employee should do everything possible to please his fellow worker. The best way to do that is to pay strict attention to everything that he is told, to remember it, and to do it correctly.

Many new workers make notes of what is told them, so that they can refer to them when necessary to refresh their memories. Writing down instructions as they are given has other advantages: (1) it lessens the chances of forgetting, (2) it causes the instructor or supervisor to be more cautious and accurate in giving the instructions, and (3) the instructor has respect for a new employee who is careful and thorough.

Some concerns have typed or printed standard practice instructions that tell exactly how to do the work. With these, the new employee can learn the right method quickly without any loss of time. But there are still many concerns that do not have written instructions, and it is in these concerns especially that the new employee must depend on his alertness to carry him through the beginning period satisfactorily. If something does not seem right, he should ask about it; he should never be afraid to ask for help. He cannot be expected to do his work properly if he is not told the methods of the new job; but he *is* open to criticism if he does not ask for instructions.

Don't Forget This! As a business becomes successful and grows, the employer no longer can handle the work himself. It becomes necessary to distribute the various tasks and to hire suitable applicants. The employer wants to have the work well done; therefore, it would seem to be obvious to employees that the way to

get ahead is to find out what the employer wants and expects, and then to comply with his wishes. What could be simpler?

Yet hundreds of workers never grasp this idea, but plod along day after day, wondering why nothing ever happens to advance

Five Principles of Effective Work

- A. Plan your work. To plan accurately, you must know:
 - 1. What work is to be done
 - 2. How it is to be done
 - 3. When it is to be done
 - 4. Where it is to be done
 - 5. How fast it can be done
- B. Schedule your work. A well-planned schedule must be:
 - 1. Definite
 - 2. In harmony with other schedules
 - 3. Possible to accomplish, even though difficult
 - 4. Rigidly kept
- C. Execute your schedule in the following manner:
 - 1. Skillfully
 - 2. Accurately
 - 3. Rapidly
 - 4. Without unnecessary effort
 - 5. Without unnecessary delay
- D. Measure the work that you have accomplished as to:
 - 1. Your potentiality
 - 2. Past records, your own and others
 - 3. Quantity
 - 4. Quality
- E. Expect certain rewards, if earned:
 - 1. Improved working conditions
 - 2. Good health
 - 3. Happiness
 - 4. Self-development
 - 5. More money
 - 6. Advancement

them in their work and blaming their condition on circumstances. "Circumstances?" said Napoleon. "I make circumstances!" And any alert, capable employee can make circumstances favorable by doing a little more work than is expected of him and by doing it

a little better than is expected. In every concern, there are multitudes of little tasks that are neglected because "nobody has the time to look after them." What an opportunity for the worker who wants to get ahead!

"But," asks the interested worker, "how can I find out what my employer wants?"

USE YOUR EYES AND EARS

Nature has endowed almost everyone with these helpful senses—hearing, seeing, speaking. The alert employee hears everything, sees everything, and says little, except to ask questions about what

When you go to work for a man—and of course you will have superiors—make it a practice to see how much work you can take off the boss's shoulders. If you see him doing some work that looks reasonably simple, such for example as keeping a little record or tally, go to him and say, "Can I do that work for you?" Nine times out of ten he will be delighted to have you do it. The next day you perhaps see something else that you might do to relieve him. Soon you will have become so necessary to him that he cannot let you go, no matter how expensive you are, because it would mean taking back into his own hands a large amount of work of which you have relieved him. That is the way to get ahead in business.

(From Charles R. Gow, "*Foundations for Human Engineering*," by permission The Macmillan Company)

he does not understand. Let him see how his employer does things; let him cultivate the power of observation. Let him ask himself why things are done in certain ways. The inquiring mind (not the inquisitive one) can add constantly to its store of useful knowledge. The inquiring mind seeks information that will be helpful. The inquisitive person asks questions out of mere curiosity or "nosiness."

"It is well to consider the best way to frame a question, sometimes even writing it out and rehearsing it to be sure that the precise way of speaking it is followed and not forgotten. Let the worker make copious notes of his observations. Gradually, he will

What Is There to Think About?

Some years ago, William H. Lessingwell prepared the following questions for his clients' subordinates who felt that they were not getting ahead fast enough.

A. Analyze yourself.

1. Have you a goal in life?
2. If so, have you a definite idea of it?
3. How long will it take to reach it?
4. Are you on the right track?
5. What are your handicaps?
6. Are you trying to overcome them?
7. Are you making progress every hour?

B. Analyze your job.

1. What are all the things you are supposed to do?
2. How many of these things do you do?
3. Can you do more?
4. Can anyone do them better than you?
5. Do you do things that can be delegated?
6. Have you trained an understudy?
7. What would happen in your job if you were promoted?
8. If promotion has been denied you, do you know why?
9. What is the goal (in your job) that you are working for?
10. When will you reach it?
11. Are you making progress every hour?

C. Analyze your employees.

1. Are they competent?
2. If not, whose fault is it?
3. What have you neglected?
4. Do your employees waste time and energy?
5. Who is at fault?
6. Do you treat your helpers as you would like to be treated?
7. Do you encourage them?
8. Do you recognize and commend good work?
9. Do you complain too much?
10. How many different ways are there of doing the same thing in your department?
11. Which is the best way?
12. Why not all use the best way?
13. Who is the judge as to the best way?
14. Do you influence the methods?
15. Do you get many suggestions from employees?
16. If not, why?
17. Do employees like their work?
18. Is overtime necessary?
19. If so, what are you doing about it?

build up a manual of practice that will be invaluable to him. He cannot know too much about his work, about the work of his associates, and about the business where he is employed.

The alert employee should find the answer to such questions as these: How long has this business been established? Who founded it? Who are its competitors? What standing has the firm in the business world as well as locally? What products does it handle? Are there other products that it could handle with profit? How long have other employees been with the concern? How did they start? What did they do to deserve advancement?

The employee should put himself beyond competition. There is no limit to the amount of information one may gather. In a relatively short time, a new employee who is alert may know more about the business and its policies than other employees who may have been with the concern for years, but who have kept their eyes shut and their ears plugged, lest they be called on to perform a little extra work or hear something that would be useful to them.

Make Yourself Indispensable. It is possible for an employee with the proper attitude and energy to make himself so nearly indispensable that his firm would not consider releasing him. And for every competent employee unwillingly released during retrenchment periods, there are hundreds of less competent ones who are released at the same time.

Resolve to *put yourself beyond competition*, and you will not have any competition; you will be so far ahead of those who might be your competitors that you will have the road to yourself. Is it worth while? Is it worth the effort? Answer the question for yourself. No one else can answer it for you.

HOW TO GET ALONG WITH OTHERS

The stumbling block in the path of many an otherwise successful and ambitious employee is that of getting along with others. The ability to get along with people is a valuable possession for any employee, since every job is full of petty details that, in the pressure of the day's work, may become very annoying.

The secret of getting along with others lies in gaining their confidence and respect. When fellow workers really believe that you are sincere, that you are not trying to take undue advantage of them, but are willing to help them and to work with them, the

Self-analysis Check List for Retail Salesmen

1. Do I understand my place and duties in the store organization? Am I sure how I fit into the teamwork of the store, working toward a common goal for the benefit of all of us? Any points I should have cleared up?
2. Do I understand my merchandise? Am I familiar with the entire line, the models, prices, and talking points on each item?
3. Do I know my stock? Do I know what is available for immediate sale and what is likely to be available in the near future? Can I find items quickly and easily, or do my customers get the impression that I am not familiar with the store and the merchandise?
4. Am I pleasant and agreeable with customers? Do I have a smile for them and make them feel as though I really am pleased in serving them? Will they ask for me again when they return?
5. Am I agreeable and cooperative with my fellow employees? Am I treating them the way I would like to be treated? Am I fair and honest?
6. Am I careful, and do I attend to details? Do I make errors in writing up sales or in making change? Do I know the store rules and regulations, and do I follow them faithfully?
7. Do I always keep my stock in order and well displayed?
8. Is my appearance good? Am I groomed well enough—with suit pressed, shoes shined, hair combed, and nails manicured—to make a favorable first impression on my customers?
9. Are my sales good for a beginner? Do I understand the importance of closing sales, and are my sales improving each week? Am I making profitable sales and getting good down payments or cash sales?
10. Do I take a sincere interest in my customers and make them feel that I am really helping them and working for their own best interests? Do I give good service to my customers?
11. Am I regular and dependable in my work? Do I work every day, and can the boss count on me to be on the job at all times?
12. Do I manage my time properly? Am I always on time to work, and do I get started working without delay? Do I keep busy and not kill time in idle gossip or loafing?

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fear that lies at the bottom of noncooperation vanishes, and a spirit of teamwork takes its place. The motto of the Sherwin-Williams Company is: "Merit begets confidence, confidence begets enthusiasm, and enthusiasm conquers the world."

If a group of people become interested in working together for a common end, there is no limit to the possible accomplishment of that group. And what does interest mean in this case? Primarily, it means that each person participates in the welfare of the others. Whatever is accomplished will be of advantage to all the group. Most people will work unremittingly for the accomplishment of those things in which they are interested—that is, those things which they believe are to their interest, which they believe are of advantage to them. Try it and see!

SETTING UP YOUR OWN BUSINESS

"What about going into business for myself?" Good idea, if you are interested in a certain business, if you have the training for that business, and if you have had enough actual experience in it to be aware of the pitfalls that beset the path of every business.

Before setting up your own establishment or taking over a going business, you should make a thorough analysis. For example,

If we can't make money in a business we know, I don't think it likely that we could do better in a business we don't know.

—DAVID SARNOFF

(Courtesy Radio Corporation of America)

one of the first points to be considered is the product or service that the business has to sell, and the market for that product or service. If there is no market, no further consideration need be given to the proposition. Never assume that there is a market because someone told you so. Get the facts. Talk with customers of such a product or service. Find out why they buy the product and how well satisfied they are with it. What competition is there? Is it worth the money, time, and effort that may be required to meet this competition? Is the product in the form that will best meet the demand? Or should it be redesigned? Is it a novelty, or will it have a permanent market? What is the reputation of the present company? Is the company well thought of by *both* customers and suppliers?

Some Fair Questions for the Investor

A. The Product

1. Is it useful?
2. Is it practical?
3. Has it a ready market?
4. Is demand seasonable, steady, or subject to influence of abnormal conditions?
5. Is it sold at a reasonable profit?
6. Is it patented?
7. Is it a secret process in the hands of a few persons?
8. Does demand exceed supply?
9. Will there be repeat orders?
10. Does its price depend on special conditions?

B. The Company

1. How long established?
2. Has it gone successfully through a period of depression?
3. Is it on a sound basis commercially and financially?
4. What facilities has the plant?
 - a. Railroad
 - b. Shipping
 - c. Power
 - d. Water
 - e. Light and heat
 - f. Nearness of raw material
5. What is the company's reputation as to credit standing and business dealings?
6. What is its total capitalization?
 - a. Outstanding
 - b. Common stock
 - c. Preferred stock
7. Do current earnings justify above capitalization?
8. Amount of bonded indebtedness?
9. Kind of bonded indebtedness?
10. Nature of sinking fund (if any)?

C. The Management

1. Are active officers and managers experienced, successful, reliable men?
2. What were their previous connections?

D. Earnings

1. Is there a published balance sheet?
2. Does it publish a statement covering a number of years?
3. What is the ratio of net quick assets to net quick liabilities?
4. Has the surplus or undivided profit fund shown a steady increase?
5. Have earnings increased?
6. How many times over have bond interest and dividend requirements been earned?

7. Are the balance sheet and earning statement simply and clearly arranged?

E. Dividends

1. When was the company established?
2. When was the first dividend paid?
3. Have dividends been paid regularly?
4. Any distribution of stock dividends?
5. If preferred stock dividends have been paid regularly, are the earnings sufficient to allow dividends on common stock?

(Courtesy Herkimer County Trust Company)

Market research specialists can get the answers to such questions, and their fee will be much less than it would cost you if you went ahead blindly and lost your entire financial investment.

Consider also the fact that things are not always what they seem. The phonograph record business seemed headed for the scrap heap with the coming of radio. But more records are being made and sold now than ever before, and to owners of radios and television who want to be able to listen to any desired music or opera or other work whenever they feel like it.

HOW IMPORTANT IS CAPITAL?

The factor of capital is important, although probably not so important as some believe. Few business managers ever have as much capital as they would like to have, or believe that they ought to have. But that does not prevent them from trying to do the best they can with what they have. The danger is not so much in having too little capital as in not using the capital you have to the best advantage. It is very easy to make unwise purchases, and equally easy to overextend oneself. A rereading of Chapter IV on finance will help you to appreciate this point and to avoid one of the results of money mismanagement.

Keep this thought in mind: There is plenty of capital money waiting for men who have demonstrated their ability to use it to advantage. Banks, bankers, insurance companies, investment trusts, and large investors have more money awaiting profitable investment than they can invest profitably. Their problem is not so much to find propositions for investing their funds as it is to find men capable of managing the propositions profitably. The Reconstruction Finance Corporation of the United States Gov-

ernment can advise businesses of all sizes as to where money is available for sound propositions, even to joining with banks in seeing that the money is made available.

It should never be forgotten, however, that when an outsider puts his money into another person's business, he is taking chances for which he is entitled to a fair return on the risk. And not infrequently he may feel that he should have some control over the way that the money is to be used. The greatest recommendation that any individual can have when he seeks additional capital is that he himself has been able to save money. That is so important that James J. Hill, builder of the Great Northern and Northern Pacific railroads, constantly reiterated this statement: "The test of a man's ability to succeed is his ability to save money. Can you save money? If you cannot, then the seed of success is not in you. You will fail."

In the business that you will soon enter, you will not always be able to determine the correct answer to a problem, but after study, you can usually approach it with a fair degree of knowledge and perhaps accuracy. In order not to be too positive about your knowledge, however, consider two apparently conflicting axioms that many businessmen have uttered with respect to capital. The two are inconsistent, yet each has considerable truth in it. Here is the first, so well known as to be virtually a copybook maxim: Never put all your eggs in one basket. Here is the other: Put all your eggs in one basket, and watch that basket.

The choice is yours.

QUESTIONS FOR REVIEW AND DISCUSSION

1. In what way is a person applying for a job similar to a salesman looking for orders?
2. What is the most difficult problem facing employers at all times? Do you believe it? Why or why not?
3. "Opportunities are all around us." Comment on this statement.
4. What is the attitude of some employees toward their jobs?
5. What are the five essentials to success in any line of endeavor? Do you believe it? Why or why not?
6. What is meant by thorough preparation? Why is it important?
7. Do you believe that the world owes you a living? Why or why not?

8. Why can't a person get a job by simply announcing that he is open for one?
9. What six conditions create job opportunities in every concern?
10. Why should an employee be released for incompetency? Or should he?
11. If you were an employer, would you hire an incompetent applicant, knowing that you might have to discharge him later for incompetency? Explain your answer.
12. Why are employees promoted?
13. Under what circumstances might the promotion of employees within a business not leave positions open for outside applicants? Should all advanced positions be filled from the inside? Why or why not?
14. Should an employee leave a position with one concern to take a position with another? Why or why not?
15. For what reasons might an employee give up his position of his own accord?
16. How may a job seeker take advantage of the opportunities created by the six conditions that create jobs?
17. How would you determine the job opportunities in your community?
18. What advantages would you expect to gain by analyzing the local opportunities? What would you do if your analysis showed no local opportunities?
19. What is the attitude of the salesman who is trying to get orders? Do you believe a job seeker has the same problems as a salesman? Why or why not?
20. How much would you eventually expect to know about a particular line of business that you have decided to enter? Why?
21. What two standards help a person to choose the right kind of work? Which seems to you the more important? Why?
22. What is the difference between necessities and luxuries? How do you know?
23. Should a person try to choose his lifework before he is ready to apply for a job?
24. Do you believe that important executives will take the time to talk with you about their work? Why or why not?
25. Summarize the advice that one manager gave to an applicant.
26. In filling out an application blank, what should you try to do? Why?
27. Why does a prospective employer want to know where you have worked and what you did there?

28. Of what value are references? How do you know?
29. Should a person seeking employment register with employment agencies? Why or why not?
30. Do all business concerns use employment agencies? Comment briefly.
31. Why is it desirable to make a favorable impression on an employment agency manager?
32. Why are personal follow-up calls at the agency likely to be more effective than telephone calls? Do you believe they are?
33. Why should a private employment agency charge an applicant a fee for its services? Why do some employers pay the agency fee?
34. What is the weak point in the argument of some people that they will not go to an employment agency because they have to pay a week's salary for a job?
35. What is the purpose of the employment interview? Why is appearance important in an interview?
36. Why do employers find it difficult to get people who are really interested in their work?
37. What is the greatest mistake that an applicant for work is likely to make at an interview?
38. Why is it better for the applicant not to make conversation during a pause?
39. What should an applicant avoid when an employer wants him to tell his own story?
40. To what three questions is the employer trying to find the answers during the interview?
41. What five questions does the applicant want answered?
42. What circumstances might affect the applicant's desire to work for the company that is granting the interview?
43. Discuss briefly these facts that must be settled in an interview for a job.
 - a. When to start work
 - b. The work to be done
 - c. The one question not to ask
 - d. How to handle the salary question
 - e. How to close the interview, whether engaged or not
44. Why is a fair system of salary standardization a good plan for a concern to have?
45. From whom is a new employee likely to receive his instructions? What should he do when receiving instructions?
46. What are standard practice instructions?

47. What should an employee do if he does not understand what is desired of him?
48. How may an employee make circumstances favorable for him?
49. What is the difference between an inquiring mind and an inquisitive one?
50. How can a worker build up his own standard practice manual?
51. What facts about the kind of business and the company should the new worker be interested in? Why?
52. How can you put yourself beyond competition? Explain.
53. Why is it desirable to have a good reputation for getting along with others? What is the best way to acquire it?
54. Why will most people work harder if they are interested in what they are doing?
55. What three facts lead to an affirmative answer to the question: "What about getting into business for myself?"
56. Why should you consider carefully the product or service of a business that you are contemplating entering?
57. How would you analyze the market of that business?
58. How important is the factor of capital? How would you know?
59. "There is plenty of capital money waiting for men who have demonstrated their ability to use it to advantage." Do you believe this statement? If so, where is this money?
60. Explain why equally successful businessmen would make such conflicting statements about putting your eggs in one or more baskets.

TOPICS FOR RESEARCH

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees.

1. Procure an application blank from each of ten concerns in your community. Compare the ten blanks, and make a list of those questions that appear on all of them.
2. Make a note of any question that is on one application blank and not on the others. Beside each such question, give your explanation of the possible reason for including it on that particular blank.
3. Try to procure an application for a fidelity bond from a bonding company, and compare the questions with those on the average application blank, especially as to the number of questions.
4. Visit twenty-five to fifty concerns in your community, and find out how many have typed or printed standard practice instructions.

At the same time, find out how many have some plan of salary standardization. Compare the two kinds of information to see how many concerns have one, the other, or both. Analyze the results of your survey.

5. Select some business in your community, and write a thousand-word report on why you would like to work for that concern, what you could do for the concern and why you think so, what position you would like to hold in it and why, and what salary you think you could start at and why. Give the name of the concern, the name of the manager (or whoever is in charge), and the number of employees.

PROBLEMS

1. Read this extract carefully, then answer the questions that follow it.

One of the questions asked at one time or another by most men is as to the advisability of going into business for oneself. The successful head of a business is apt to owe his success more to a well-rounded balance of qualities than to any one ability. If he is a manufacturer, he must know something about the technical design of his product. He must be intelligent on accounting and financial questions. He must be something of a salesman, or at least possessed of a sales sense. He must get along with people and command their confidence. He must be an organizer, capable of seeing the correct relationship between individuals and the activities of the business. Similarly, with the merchandiser, sales ability alone is not sufficient to secure success.

One often wonders why salesmen who have made spectacular successes on the road sometimes go under so quickly when they start their own stores or factories. Sometimes, of course, it is temperament—for a successful salesman is apt to be a confirmed optimist, a special pleader, or a plunger—of diametrically opposite type to the balance and unflinching acceptance of fact that are characteristic of the successful executive. But often it is simply that he does not know the business. He knows selling, but he does not know credits, or buying, or finance, or management, or some other of the abilities vital to the running of a successful business.

It may well be that a man's special abilities are worth more to society when he is employed by a large balanced organization with the capital and resources necessary to exploit them to the utmost than they could possibly be were the individual to attempt to use them alone. Many executives, engineers, and specialists are given by their position as members of a great organization a scope for the effective exercise of their special abilities which would be quite impossible to them as individuals.

Of course, there is such a thing as undue conservatism and timidity. Determination and a ready wit may compensate in part for lack of experience, and the responsibility and stimulus of planning and managing and meeting the crises which arise in one's own business sometimes bring

out abilities that would otherwise remain latent. Sometimes they do not, as appears to be true of the farmer who turned down an agent selling books on agricultural science, and being pressed for a reason, replied in a discouraged way, "I ain't farming now as well as I know how to."¹

- a. What qualities are necessary for success in one's own business?
- b. Should every individual go into business for himself sooner or later? Why or why not?
- c. Why are salesmen not always good managers as owners of their own business?
- d. What are the advantages of working for a large company?
- e. How would you apply the farmer's answer to a person who did not believe in studying business and office methods?
- f. Write a thirty-word summary of this article.

2. Comment on the following statement made about John D. Rockefeller, Sr.

He started work at the age of sixteen, doing odd jobs about the office of a Cleveland commission house. Soon he was advanced to assistant book-keeper at a salary of \$25 a month. Then he became a bookkeeper. He gained the attention and affection of his employers by his unceasing diligence and his ability to save them dollars by his continuous vigilance over the company's affairs.

He learned all there was to be known about the commission business. Then he started in for himself. But although he prospered, he did not remain long in the business. Quick to note the possibilities of oil as the basis of a rapidly growing industry, he established himself in that field. Here he concentrated his will and intelligence toward the development of his tremendous fortune.²

3. In May, 1923, a well-known investment analyst made the following statement in all seriousness.

In three months, the automobile companies of the United States have manufactured 1,000,000 automobiles. I think they have lost their senses. Where are they going to sell 1,000,000 automobiles with 12,000,000 already in use and with only a little over 20,000,000 families in the United States? It seems certain to me that the automobile companies of this country are riding to a fall.

The same analyst made this statement at the same time: "Henry Ford is making 6,000 automobiles every day; he said his orders are coming in at the rate of 10,000 a day."

The final production figures for 1923 were 4,034,000 automobiles. From 1923 through 1951, 92,525,000 more automobiles were manufactured in the United States. In 1924, the total number of

¹ Dutton, H. P., *Business Organization and Management*, pp. 109-111, McGraw-Hill Book Company, Inc., New York, 1929.

² *System*, August, 1929, p. 89.

passenger cars registered in the United States was 17,593,000; in 1951, the figure was 48,484,000, almost triple the 1924 figure.

In June, 1936, an official of the Ford Motor Company said that the profit on every car is \$20. "In thirty-three years this company has sold 24,500,000 cars."

From these interesting figures on one industry—automobiles—it is possible to draw a number of conclusions, one of which is the inability of even a competent authority to foresee the remarkable increase in automobile production and use. How do you explain this lack of foresight?

4. A comparison of the figures will bring out other interesting points. As an example, compare the number of automobiles manufactured since 1923 with the number registered twenty-eight years later. How do you explain the difference?

Again, if Ford made \$20 profit on 24,500,000 cars, how much was his profit per year, and his total profit on the total number of cars?

5. The automobile industry is a twentieth-century industry. Although its antecedents extend back into the nineteenth century, there were less than 4,200 cars manufactured in 1900 and only 25,000 in 1905. See what other findings you can make by a study and comparison of the automobile figures. How do you account for the rapid rise of this industry?
6. Recently developed and developing industries are radio, television, electronics, airplanes, plastics, air conditioning, and automatic house heating, not to mention the synthetic chemical industry, which has produced artificial rubber, quinine, penicillin, insulin, sulfonamides, vitamins, and similar new products. Select one of these industries, and find out the following facts about its progress and development:
 - a. Early beginnings and pioneers in its development
 - b. Obstacles encountered, and how removed or circumvented
 - c. Expansion in terms of production and geographical distribution
 - d. Present status and outstanding companies in the industry
7. From your findings, give your opinion as to the future possibilities in the industry selected. You may consult such sources of information as the *Encyclopædia Britannica*, *The World Almanac*, *Business Week*, *The New York Times Index*, and others.

GLOSSARY OF BUSINESS TERMS

The business words and expressions listed and briefly defined here are in common business use. No attempt has been made to give an exhaustive definition, merely one that will make clear the usual meaning.

Affidavit. A written statement, to the truth of which the one making the statement has sworn or affirmed before a properly authorized officer, such as a notary public or justice of the peace.

Analysis. The process of finding out what makes up the object or problem to be analyzed.

Appropriation. The sum of money allotted to a specific purpose, as for instance, advertising.

At Sight. When presented for payment, that is, on demand.

Auditing. Usually, examining any bookkeeping or accounting work to see that the work has been done correctly or in accordance with the approved method; also, checking invoices to make sure they are correct before approving them for payment.

Bankruptcy. The situation existing when a court has declared a person or firm to be bankrupt; i.e., insolvent, or unable to pay one's debts. Observe that insolvency is not bankruptcy unless so adjudged by the court. (*See Insolvent*)

Bill of Lading. The agreement between a shipper and a carrier for the transportation of goods; it is in

three parts—the original (which is the receipt), the shipper's order (which is the contract), and the memorandum (which the shipper retains in his files).

Bill of Sale. A statement, signed by the seller of personal property, that he has transferred his ownership to the buyer named, for a consideration. It is used to prove ownership, when necessary. It may be a formal document under seal, or it may be simply an invoice marked "PAID."

Billing. Making out bills or invoices for goods or services sold.

Bond. The contract by which a surety company guarantees the faithful performance of the person or firm bonded; also, a sealed promissory note, usually of a corporation, with or without security for the payment of the note. When a corporation wishes to borrow a large sum of money for several years, it may do so through investment bankers who divide the loan into several equal parts and issue bonds, each bond representing one part of the whole loan. A loan of \$2,000,000, for instance, may be divided into 2,000 bonds of \$1,000

each; the investment bankers sell these thousand-dollar bonds to their customers. Sometimes \$100 and \$500 bonds are also issued, but the usual denomination is \$1,000.

Break in. To instruct a new employee on work with which he is unfamiliar.

Budget. An estimate of the expected income for a stated period, and of the things for which that income may be expended during the period budgeted.

Business conditions. At any given time, business is better or worse than it has been, or it is the same; business conditions are said to be good if there is brisk trading, prompt payment of bills, and no serious uncertainties such as labor troubles, political agitation, financial difficulties, and so forth.

By-laws. The rules by which a corporation or any association is governed; they are drawn up by, and can usually be changed only by, the members.

Capital. The total of a person's or firm's assets, less the total liabilities; same as net worth.

Carrier. The term usually applied to a railroad, express company, trucking concern, steamship line, air line, or any owner of a conveyance regularly used to transport persons or things.

Cash Position. A statement showing cash on hand, money coming in, and bills to be paid (money going out); it shows the cash position of the firm at the time the statement is made.

Cashier. Usually, one who receives or pays out cash; in a national bank, the chief executive officer.

Chart. A sheet of paper giving information by means of tables, lines, curves, squares, etc.; e.g., an organization chart shows the dis-

tribution of authority and responsibility in a group of people. (*See also Graph*)

Charter. A document issued by the government authorizing the recipient to do certain things. The charter of a corporation is the authorization of the state to permit the corporation to engage in the activities stated; a corporation may not legally engage in any business not stated in its charter. (*See ultra vires*)

Chronological. In date order; usually refers to a file in which the filed material is arranged according to date.

Claim. A more or less detailed statement of damages suffered and a demand for reimbursement. (*See Supporting papers*)

Clock Watcher. A derogatory term used to designate employees who watch the clock as it nears closing time, in order to be sure they do not work overtime. With scientific management requiring the completion of work upon schedule, clock watching has become necessary in order to see that work is completed on time.

Collection. The process of inducing or persuading a debtor to pay what he owes; often used by credit men to indicate that suit was necessary to get payment.

Commission. Usually, the percentage of a sale that is paid to the salesman for making the sale; no sale, no commission.

Commodity. Any article that is bought or sold.

Comptroller. Same as controller, which see.

Contract. The agreement between two or more competent parties (i.e., sane, sober adults) to do or not to do something that they legally may or may not do (called the subject matter of the contract),

in return for a consideration (i.e., anything of value, whether it be services, money, goods, property, or even a promise); such an agreement is enforceable in court.

Control Mechanism. The means by which an executive keeps in touch with, supervises, and directs intelligently the conditions and activities for which he is responsible, in order to make sure that his plans and policies are put into effect.

Controller. Usually, the chief accounting officer of a corporation, responsible for seeing that proper records of the firm's affairs are kept and interpreted to the board of directors; also spelled comptroller.

Coordination. Seeing that individuals do not work at cross-purposes with each other.

Corporation. A fictitious person, created by the state and endowed with definite, limited powers, the two outstanding features being the limited liability of the stockholders, of whom there may be an unlimited number, and the perpetual existence of the corporation, except as limited by law, by its charter, or by vote of the stockholders.

Credit Approval. The permission granted by the credit department to ship goods to a customer on credit terms; often called credit O.K., which see.

Credit File. The collection of papers, letters, documents, and reports concerning the financial and credit standing of a customer; usually kept in a folder, one for each customer, and filed in cabinets with similar folders for other customers.

Credit O.K. Same as credit approval, which see; no shipment is permitted to leave the shipping room until the credit department has given its O.K.

Credit Rating. A symbol representing a mercantile agency's esti-

mate of the reputation of a person or firm for paying his bills.

Creditor. One to whom another, called the debtor, owes money.

Cross Reference. A reference to another place where additional information may be found.

Current Operations. Refers to the operations of the business during the present year, month, or week.

Curve. (See Graph)

Debtor. One who owes money to another, called the creditor.

Demurrage. The charge made by carriers for the delay in loading or unloading freight from the carrier's vessels, cars, or vehicles. (*See also Spotting*)

Depression. That part of the business cycle in which business is getting dull, and before recovery sets in.

Deputy. One to whom certain duties and authority are delegated or deputized; frequently, a deputy has equal authority with the person whose deputy he is, within the limitations of the appointment.

Discount. Any deduction from the list price. Cash discount is allowed for payment within a specified time, usually ten days. Trade discount is the deduction allowed to the trade; i.e., by a manufacturer to a wholesaler or retailer, or by a wholesaler to a retailer or to another wholesaler. Bank discount is the interest deducted by the bank when it makes a loan—bank discount is always deducted in advance, whereas interest is usually paid after it has been earned.

Discrepancy. Any disagreement in figures or in actual performance compared to what was expected.

Draft. The common name for a bill of exchange; a written order by one person, ordering another person to pay a stated sum of money

to himself or to a third person at a definite time. A check is a sight draft drawn on a bank.

Drawing Account. Regular weekly or monthly payments, made like salary, except that the payments are charged against commissions earned. (*See Salary*)

Draw off. In accounting, used to designate the operation by which information from the books or reports is copied for inspection or other use.

Executive. Any person who directs, supervises, or is responsible for the work of one or more other persons; the plural form often, but not necessarily, refers to the heads of the business.

Expansion. The increase in a concern's organization or facilities in order to handle more business; the opposite of retrenchment, which see.

Experience. Knowledge, skill, and caution gained by working. Note that these same benefits may frequently be obtained by observing or remarking the experience of others—a less expensive method.

Expert. One who has more knowledge or skill in a certain field than the average person.

Face Value. The value of anything judged according to its appearance; i.e., on its face. The face value of a check or note is the amount shown on the face of the instrument; its actual value lies in the fact that it will be paid when properly presented for payment.

Fee. A charge for services rendered.

Filed. Refers to the delivery of a message to a telegraph, cable, or radio company for transmission; usually used in the phrase, "the time filed."

Follow-Up. After the first step, any subsequent steps taken to bring

about the desired results, such as a follow-up letter, a follow-up file, and so forth.

Footing. The total of any column of figures; probably more frequently used in connection with invoices, to refer to the total of the column in which extensions occur.

Forms. Printed sheets with blank spaces, used in offices to save unnecessary writing; e.g., receipts, invoices, order blanks, etc.

Function. That which a person, firm, or thing is expected to do.

Gazetteer. A geographical dictionary giving the names of places, the pronunciation, location, population, and also sometimes a brief historical note.

Graph. A diagram or chart showing changes in relation to quantity and time; often called a curve.

Imprest Fund. *See Petty cash.*

In Transit. Refers to the status of a shipment from the time the carrier receives it for transportation until it is delivered to the consignee or placed in storage by the carrier for the consignee.

Individuality. Those characteristics which distinguish one individual from another.

Insolvent. Unable to pay one's debts. The Uniform Sales Act states: "A person is insolvent who either has ceased to pay his debts in the ordinary course of business or cannot pay his debts as they become due, . . . whether he is insolvent within the meaning of the Federal bankruptcy law or not." Under the Federal bankruptcy law a person is insolvent if his total assets are not enough to discharge his total liabilities.

Inspection. Comparing something with a standard, to determine the extent of variation from the standard. (*See Auditing*)

Instructions. Directions given by

one person to another as to ways of doing something.

Inventory. A list of materials, merchandise, or other things on hand; sometimes referred to as an invoice. (*See Perpetual inventory and Physical inventory*)

Invoice. A list of the items shipped on an order, showing also the price and quantity of each item, the date of shipment, terms, how shipped, etc.; often called a sales invoice by the seller, who makes it out, and a purchase invoice by the buyer, who receives it from the seller; same as a bill; also sometimes refers to an inventory.

Item. One of several things of a kind; e.g., the items in an invoice; a newspaper item; etc.

Ledger. The book of accounts, in which are brought together and classified all bookkeeping entries; frequently refers to the accounts receivable ledger, containing the details of transactions with charge customers.

Ledger Experience. Term used by credit men to designate their experience with a charge customer, such as how he pays his bills, the largest amount recently owing, etc. (*See also Trade references*)

Line of Credit. The maximum amount of credit that a bank or business house will extend to a specific customer.

Loose-leaf System. A system consisting of sheets of papers (loose leaves) with holes punched at one side or the top, through which rings or posts are passed to keep the sheets together, permitting the arrangement of sheets in any desired order, as well as the insertion or removal of any sheet or sheets without disturbing the arrangement.

Management. That function which determines what is to be done, plans how and when it is to

be done, selects the person or persons who are to do it, trains and directs them, and exercises control over the plans, the organization, and the results.

Medium. In advertising, the means used, such as magazines, newspapers, etc.; in bookkeeping, posting medium refers to the duplicate invoices, credit memorandums, or other written memorandums from which entries are made in the ledger.

Mercantile Agency. A source of information about the credit or financial standing of individuals and firms engaged in business.

Net Worth. Total assets less total liabilities. (*See also Capital*)

Open Account. When arrangements have been concluded for charging purchases, an account is "opened"; such purchases are frequently referred to as "made on open account."

Open Item. Entries on a charge account that are still "open"; i.e., not settled or closed.

Operating Statement. The statement of income and expenditures, showing the profit or loss from the operation of the business for the period covered; also called income statement, income sheet, or profit and loss statement.

Operation. The work by which something is done.

Perpetual Inventory. A record of items kept in stock, showing quantities received, issued, and balance on hand; often shows also quantities allotted to certain orders, even though not yet actually taken out of stock. If accurately kept up to date, a perpetual inventory may make unnecessary the frequent taking of a physical inventory, which see.

Personality. The reflection of a person's individuality upon those

with whom he comes in contact.

Personnel. All the persons in any organization; often used to denote the "rank and file" of employees; i.e., those under the rank of executive; but strictly speaking, the word includes everybody in the organization.

Petty Cash. A stated sum of money kept in the cash drawer, from which incidental payments may be made, making unnecessary the drawing of a check each time it is necessary to pay out small sums. No payments are made without a properly authorized currency voucher, or cash voucher, as it is sometimes called. Petty cash is often called the imprest fund.

Physical Inventory. The actual counting of stock on hand, piece by piece, or unit by unit, done weekly, monthly, semiannually, or annually, in accordance with the custom or requirements of the business concerned. Distinguish from perpetual inventory, which see.

Planning. Laying out a course of action to be followed, based on facts and estimates, and often stating in detail who is to do what. Combined with a schedule, the plan also shows when each step is to be taken.

Policy. That which determines what shall be done under any given circumstances.

Politics. In business, refers to the situation which exists where one or more individuals in an organization play other individuals against each other to the advantage of the person or persons playing politics.

Pricing. The operation of looking up the price of each item on an order and writing the correct price opposite the item. This may be done before the order is "put through," or after the order has been shipped, just before making out the bill.

Problem. Any situation which requires statement, analysis, and solution.

Procedure. The steps to be taken in doing any work or solving any problem; often called routine, or system.

Putting in Work. An expression frequently used in manufacturing companies to indicate that an order has been started on its way through the factory or shop.

Rate. In traffic-department work, the price per hundred pounds that a carrier charges for transporting goods in his vehicles; in advertising, the price per line, inch, or page that a publisher charges for the insertion of an advertisement.

Remittance. A sum of money sent or received, whether in the form of cash, stamps, check, or money order.

Remittance Slip. A memorandum accompanying a remittance, stating the amount of the remittance, for what it is in payment, and who is to be credited.

"Reporting to." An expression commonly used to indicate the relationship of superior and subordinate. For example, Mr. Jones "reports to" his superior, Mr. Hall.

Research. Investigating, experimenting, and collecting facts, sifting them, and analyzing them to discover the truth.

Retrenchment. In business, the restriction of operations and the elimination of many activities that cost money in an endeavor to keep down to a minimum the payment of money, a procedure usually resulting in the release of employees; cutting down; the opposite of expansion, which see.

Route. In traffic, a way or road by which shipments are sent; in order handling, the sequence of operations or departments through which an order passes.

Salary. A regular weekly, semi-monthly, or monthly payment of a stated sum for services; often reckoned by the year, even though paid as above described. Distinguish from wages, which are usually reckoned by the piece, hour, or day. (*See Drawing account*)

Schedule. In management practice, a list of duties or steps in the order in which they are to be performed, together with the times at which each one is to receive attention.

Secretary. A personal assistant who performs duties and services intended to facilitate the work of the person served.

Service. Prompt attention to the requirements of a customer or others entitled to such attention.

Shipper. The person or firm sending a shipment; often refers to the shipping clerk, who is in charge of the department which sends out shipments.

Shipping Directions. How a shipment is to be sent and when it is to be shipped; they usually accompany each order.

Shopper. A person who shops for others who are unable to do their own shopping. A person employed by a retail store to make comparisons between merchandise carried by the store and that of its competitors. The first is called a "professional" shopper, and the second, a "comparison" shopper.

Shortage. Refers to items missing from a shipment upon arrival at its destination.

Spotting. The placing by a railroad of freight cars at spots designated by the shipper or consignee for convenient loading or unloading, usually on a sidetrack or on a spur track at the shipping or receiving platform of the concern.

Standard. A level of excellence

established for accomplishment; that by which other things are measured; e.g., a standard of length, a standard of speed, etc.

Standard Practice Instructions. When a method of performing any piece of work has been selected as the best way of doing that work, the method is adopted as standard practice, and the instructions for doing the work by the standard method are written down and called standard practice instructions, so that every worker who follows them will do the same work in the same standard way.

Standardization. The process of reducing to an established standard.

Statistics. Figures which, when properly arranged in tables, columns, charts, or diagrams, will show conditions and enable the reader to interpret the significance of the figures.

Stopover. The privilege, arranged for beforehand, of breaking a trip at some desired point and resuming the trip later on within a reasonable period, which may be the same day, the next day, or the next week or month, depending on circumstances and on the understanding with the carrier.

Stuffing. Placing posting media, such as duplicate invoices, in the ledger at the proper places, so that the machine bookkeeper can concentrate on posting.

Success. Attaining the standard of accomplishment set by oneself or by others.

Summary Report. A condensed report showing only the total figures and not the details.

Supervisor. One who supervises the work of others, to see that the work is done in accordance with the prescribed standard and to render such assistance to his supervisees as they may need.

Supporting Papers. Information in the form of figures, statements, affidavits, or reports which confirm the claim made. (*See Claim*)

Survey. An investigation of conditions in an endeavor to discover the existing situation and ascertain what must be done to improve it.

System. All or any part of the methods, routines, and procedures by which work is accomplished, especially when interrelated parts are brought together and coordinated. (*See also Procedure*)

Technique. Indicates the way in which an expert approaches his task—with confidence, skill, and assurance.

Terms. In credit work, the length of time a buyer may have in which to pay for his purchases; often includes special or regular discounts and allowances.

Tickler. Any of a number of devices for "tickling" the memory, such as a follow-up file, a dated memorandum book, a desk-calendar pad, a diary, and so on.

Trade Association. An association of firms and individuals interested in promoting the interests of their particular trade; usually national in character, as distinguished from chambers of commerce and boards of trade, which are usually local unless otherwise indicated.

Trade References. Firms in the same trade to whom an applicant for credit refers for information about his credit standing; also called credit interchange. (*See also Ledger experience*)

Transcriber. A typewriter operator who types material dictated to a dictating machine.

Transferring. The operation of clearing current files of material over a certain age to make room for more recent letters and papers.

Trustee. One in whose hands property is placed in trust for a certain purpose and for the benefit of one or more persons called beneficiaries. The trustee may be limited by specific instructions or he may be free to exercise discretion, according to the terms of the declaration of trust.

Ultra vires. Beyond the power; a term used to describe an act of a corporation that is beyond the scope of its express or implied powers.

Unit. One individual in a group, or one group in a number of groups; for example, a department is a unit in a concern with several departments; a section is a unit in a department with several sections; an individual is a unit in a section containing two or more individuals; likewise, a corporation may be a unit in a group of corporations. Again, in any quantity of articles, all alike, one article would be a unit; hence, the term, "unit price," meaning the price for one article or unit.

Vault. A fireproof and burglar-proof chamber made of brick or steel for storing valuable and irreplaceable records. If part of a building, it may be located below the surface of the ground, although it may be in the superstructure, in which case it is supported in such a way that if the building should burn, the vault still remains intact, without falling to the ground.

Voucher Register. A record of invoices payable, showing desired details such as date, amount, date due, distribution, etc.

Waiver. Relinquishment of a legal right or privilege.

Warranty. A guaranty by the seller that the goods he is selling are as represented.

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